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Report of the Auditor General of Canada to the House of Commons

Protecting Health and Safety

Chapter 24
Federal Health and Safety Regulatory Programs

Chapter 25
Canadian Food Inspection Agency – Food Inspection Programs

Chapter 26
Health Canada – Regulatory Regime of Biologics

Chapter 27
Canadian Nuclear Safety Commission – Power Reactor Regulation

Chapter 28
Follow-up of Previous Recommendations on Health and Safety Regulatory Programs



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This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 24

Federal Health and Safety Regulatory Programs

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	24-5
Introduction	24-7
Focus of the audit	24-7
Observations and Recommendations	24-9
Understanding Major Challenges in Health and Safety Regulatory Programs	24-9
Increased reliance on industry	24-9
Increased use of standards developed by third parties	24-11
International harmonization of regulatory approaches	24-13
Major changes in resources and organization	24-13
Credibility of the use of science by government	24-14
Implementation of the precautionary principle	24-14
Potential legal liability	24-15
Need for multi-departmental action	24-16
Need for multi-jurisdictional action	24-16
Increased public scrutiny	24-17
Extensive requirements of the regulation-making process	24-17
Implementing Health and Safety Regulatory Programs	24-20
Improving Regulatory Programs	24-20
Clarifying priorities and values	24-20
Safeguarding the credibility of science in government	24-31
Increasing public dialogue	24-32
Increasing accountability for interdepartmental co-operation	24-33
Encouraging federal-provincial co-operation	24-34
Conclusion	24-35
About the Audit	24-37
Special Insert — Implementing Health and Safety Regulatory Programs	24-21
Exhibits	
24.1 Our Audits of Health and Safety Regulatory Programs	24-8
24.2 Major Steps and Responsibilities in the Making of Federal Regulations	24-19
Appendices	
A. Government of Canada Regulatory Policy, November 1999	24-38
B. Federal Regulatory Process Management Standards: Compliance Guide	24-39

Federal Health and Safety Regulatory Programs

Main Points

24.1 The overall objective of health and safety regulatory programs is to proactively protect Canadians from risks to health and safety — to catch the problem before it happens, and if it happens, to minimize the consequences.

24.2 The Canadian Food Inspection Agency, Health Canada, Environment Canada, Transport Canada, the Canadian Nuclear Safety Commission and the National Energy Board administer major federal health and safety regulatory programs. We estimate that in 1999-2000 the regulatory programs administered by these organizations spent about $1.2 billion and employed some 12,000 people. They administer about 85 Acts and 250 regulations. Their objectives range from controlling toxic chemicals to maintaining the safety of food, drugs and nuclear power plants.

24.3 The objective of the government's regulatory policy is to promote the design and implementation of effective regulatory programs. Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

24.4 Over the past decade, our audits of federal health and safety regulatory programs have found many instances where the regulatory authorities have not met the expectations of the government's regulatory policy. While effectiveness cannot be judged solely on the basis of adherence or lack of adherence to the policy, well structured programs increase cost effectiveness and reduce the risk of regulatory failure.

24.5 Improving the structure and implementation of federal health and safety programs will require action government-wide and by the responsible regulatory authorities. In particular, we emphasize the need to ensure the following:

- the government explains to Canadians and the federal regulatory and inspection community the priorities for health and safety regulatory programs, particularly the balance the government has reached between the objective of protecting Canadians, addressing budget concerns and meeting economic objectives;
- reliable information is available on the level of risk and the extent to which it is and can be controlled;
- based on priorities determined by risk assessment, regulatory authorities have sufficient financial and human resources;
- the government identifies major health and safety objectives that can only be achieved through interdepartmental co-operation, and authorities assess officials on the achievement of these objectives; and
- the government annually submits reports to Parliament on the overall effectiveness of health and safety regulatory programs, including reports by lead regulatory authorities on the achievement of objectives that require significant interdepartmental co-operation.

Background and other observations

24.6 We undertook this audit to identify the following:

- major trends and challenges faced by health and safety regulatory authorities;
- patterns of recurring strengths and weaknesses in structure and implementation; and
- measures that could be taken to make significant improvements in the structure and implementation of regulatory programs.

24.7 We used key elements of the government's regulatory policy as a basis for organizing information on patterns of strengths and weaknesses. Our findings are based on the results of our current audits of food inspection programs, nuclear power plant regulation, the regulatory regime for biologics of Health Canada, and follow-up audits of animal health and plant protection, safety regulation for the air navigation system of Transport Canada, and onshore pipeline regulation. They are also based on audit findings from previous Reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. As well, we have taken into account the findings of parliamentary committees, government reports and reports of non-government organizations.

24.8 Canadians are concerned about health and safety risks. Crises or regulatory failures heighten these concerns. However, the government cannot eliminate all risks. Canadians need to be provided with understandable information on health and safety risks and consulted on the choices to be made.

24.9 The public's confidence in the government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises, for example, the concerns about the safety of the blood supply reviewed by the Commission of Inquiry on the Blood System in Canada (Krever Commission). The use of independent expert advisory committees could be expanded to provide advice and enhance the credibility of the regulatory effort.

24.10 Under the Constitution and in practice, the federal government often shares responsibility for the protection of health and safety with the provinces. Co-operation is fast becoming mandatory, rather than a matter of choice. Increasingly, risks are of a global nature, and multinational action is required. Standards and regulatory approaches among countries are being harmonized through trade treaties or international agreements. This trend means that Canadian regulatory authorities need to co-operate to effectively present a Canadian position in international exercises for setting standards. For these reasons, it is in the interest of all parties to work together and to participate in the development of a national health and safety regulatory plan.

The Privy Council Office states that while the government believes its regulatory policy is sound, it shares our Office's concern. It recognizes the need to ensure that regulatory authorities have the capacity to meet the expectations of the policy — to properly develop and to appropriately implement regulations and regulatory programs.

Introduction

24.11 Health and safety regulatory programs deal with issues that have far-reaching implications. The programs are responsible for such matters as maintaining the safety of the blood supply, contributing to the safety of food, and monitoring the quality of air.

24.12 The Canadian Food Inspection Agency, Health Canada, Environment Canada, Transport Canada, the Canadian Nuclear Safety Commission and the National Energy Board administer major federal health and safety regulatory programs. Over the past decade, we have audited most of these programs. We estimate that the spending on these programs was about $1.2 billion in 1999–2000. (Some 12,000 full-time employees developed, implemented or enforced these programs.) This estimate does not include all government spending on health and safety regulatory programs. For example, it does not take into account spending by other agencies, such as the Canada Customs and Revenue Agency, on health and safety inspections or similar activities. As well, it does not include expenditures on supporting corporate administration and policy development. Finally, our estimate does not include the costs incurred by industry to comply with the requirements of these programs and the costs incurred by consumers.

Focus of the audit

24.13 This chapter provides a framework for understanding regulatory programs. It discusses major trends in regulatory approaches and the causes of the difficulties faced by the programs and proposes priorities for improvement. The chapter also identifies recurring patterns of strengths and weaknesses in the structure and implementation of health and safety regulatory programs.

24.14 The government's regulatory policy, including its regulatory process management standards, are similar to those of other member countries of the Organization for Economic Co-operation and Development. We use key elements of the policy as criteria for organizing information on patterns of findings of how well health and safety regulatory programs are being developed and implemented (see appendices A and B). We cover the following issues: risk identification and management, consultation and co-ordination, adherence to the government's regulatory process management standards, human resource management, cost recovery, enforcement and compliance, and reporting on effectiveness.

We estimate that major health and safety programs spent $1.2 billion in 1999-2000.

24.15 Our analysis and recommendations are based on the findings of our current and previous audits, and assessments by Parliament, the Privy Council Office, the Treasury Board Secretariat, departments and authoritative third parties. Our December 2000 Report contains results of our current audits: Chapter 25, Canadian Food Inspection Agency — Food Inspection Programs; Chapter 26, Health Canada — Regulatory Regime of Biologics; and Chapter 27, Canadian Nuclear Safety Commission — Power Reactor Regulation. We also conducted follow-ups of previous audits. Chapter 28 contains follow-ups of the National Energy Board, the animal health and plant protection inspection program of the Canadian Food Inspection Agency, and the commercialization of the air navigation system by Transport Canada. Our findings over the past decade on how well the government has been implementing health and safety regulatory programs are presented on pages 24–21 to 24–28. Exhibit 24.1 lists our current and previous audits of health and safety programs over the past decade.

24.16 We present more details in **About the Audit** at the end of this chapter.

Exhibit 24.1

Our Audits of Health and Safety Regulatory Programs

2000	**Auditor General's Report** Chapter 24, Federal Health and Safety Regulatory Programs Chapter 25, Canadian Food Inspection Agency – Food Inspection Programs Chapter 26, Health Canada – Regulatory Regime of Biologics Chapter 27, Canadian Nuclear Safety Commission – Power Reactor Regulation Chapter 28, Follow-up of Previous Recommendations on Health and Safety Regulatory Programs **Commissioner's Report** Chapter 4, Smog: Our Health at Risk Chapter 5, Partnerships for Sustainable Development: Overview Chapter 6, Working Together in the Federal Government Chapter 7, Co-operation Between Federal, Provincial and Territorial Governments Chapter 8, Working With the Private Sector
1999	**Auditor General's Report** Chapter 11, Agriculture Portfolio – User Charges Chapter 13, National Defence – Hazardous Material: Managing Risks to Employees and the Environment Chapter 14, National Health Surveillance: Diseases and Injuries **Commissioner's Report** Chapter 2, Sustainable Development Strategy Consultations Chapter 3, Understanding the Risks From Toxic Substances: Cracks in the Foundation of the Federal House Chapter 4, Managing the Risks of Toxic Substances: Obstacles to Progress Chapter 5, Streamlining Environmental Protection Through Federal-Provincial Agreements: Are They Working? Chapter 6, Making International Environment Agreements Work: The Canadian Arctic Experience
1998	**Auditor General's Report** Matters of Special Importance Chapter 13, National Energy Board
1997	**Auditor General's Report** Chapter 4, Control of the Transboundary Movement of Hazardous Waste Chapter 19, Transport Canada – The Commercialization of the Air Navigation System Chapter 27, Ozone Layer Protection: The Unfinished Journey
1996	**Auditor General's Report** Chapter 9, Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation Chapter 22, Federal Contaminated Sites: Management Information on Environmental Costs and Liabilities
1995	**Auditor General's Report** Chapter 2, Environment Canada: Managing the Legacy of Hazardous Wastes Chapter 3, Federal Radioactive Waste Management Chapter 4, Health Canada: Management of the Change Initiative at Health Protection Branch Chapter 11, Environmental Management Systems: A Principle-based Approach
1994	**Auditor General's Report** Chapter 13, Federal Management of the Food Safety System Chapter 15, Atomic Energy Control Board – Canada's Nuclear Regulator
1993	**Auditor General's Report** Chapter 25, Parliamentary Control Over the Raising of Revenues by Fees Chapter 26, Pulp and Paper Regulations

Exhibit 24.1 (continued)

1990	**Auditor General's Report** Chapter 18, Department of the Environment
1989	**Auditor General's Report** Chapter 17, Federal Regulatory Review Process Chapter 22, Department of Transport – Canadian Coast Guard: Protecting Mariners' and Public's Interest

Observations and Recommendations

Understanding Major Challenges in Health and Safety Regulatory Programs

24.17 Health and safety regulatory programs usually address a broad issue using enabling legislation. For example, the food inspection programs of the Canadian Food Inspection Agency contributes to the safety of food by monitoring a wide range of food products under various federal food statutes. Similarly, Health Canada is responsible for regulating a variety of areas, including biological products such as vaccines, blood, human semen, animal tissue and organ transplants to humans.

24.18 The government's regulatory policy, including its regulatory process management standards, guide the implementation of regulatory programs. Specific regulations are used to implement programs. The authority to make regulations is provided for in the enabling legislation. Regulations may be prepared before or after the proclamation of the enabling legislation. However, they cannot be enforced before proclamation. When authorities wish to make regulations, they must follow the regulatory process management standards. These standards are similar to the principles of the regulatory policy, but are much more detailed. They describe the specific steps that regulatory authorities need to follow to propose, assess and develop a regulation.

24.19 Over time, there have been major changes in the federal regulatory approaches to respond to major changes in technology, significant pressures to maintain economic competitiveness and a growing need to harmonize Canadian regulatory approaches with the requirements of international agreements. Among the emerging major responses to the changes are an emphasis on increased reliance on industry, the greater use of standards set by third parties and the use of internationally accepted standards. In addition, health and safety regulatory programs operate in an increasingly complex environment. For example, they have undergone major changes in organization, there is greater risk of legal liability and there is an increased need for interdepartmental and multi-jurisdictional co-ordination.

Increased reliance on industry

24.20 Traditionally, regulatory programs have been based on regulations that require companies to comply with certain standards of production or service delivery, and on an inspection and penalty system to ensure compliance. The government retained primary responsibility for developing regulations and for ensuring compliance with them. Regulations often specify what is to be inspected, by whom and how. In certain instances, they require both industry and

the government to carry out specific inspections.

24.21 Over time, alternatives to the traditional approach have been developed because of the following concerns:

- inspection programs of the federal government duplicated those that industry established, in part, to ensure their consumer market and avoid major lawsuits;
- the costs to the government and industry of regulations and compliance programs were increasing without an apparent increase in public health and safety;
- regulations were increasingly based on outdated scientific information and were difficult to change;
- new products and services and risks to health safety made the development of appropriate regulations more difficult; and
- industry and advocacy groups wanted ongoing consultation on regulatory approaches and faster responses to their concerns.

24.22 The January 1993 report of the Sub-Committee on Regulations and Competitiveness of the parliamentary Standing Committee on Finance called for greater use of alternatives to regulation. The subcommittee recommended the following:

- the government needs to adopt a policy of decreasing its inspection and monitoring of a regulated company that is certified and is meeting quality management standards; and
- regulated companies need to be allowed options to prove conformance to regulations.

24.23 In response to these concerns and recommendations, the federal government endorsed the use of alternatives to regulation in 1995. Its regulatory policy now requires regulatory authorities to consider alternatives to direct regulation, such as increased reliance on industry through voluntary industry codes.

24.24 Under this reliance approach, it continues to be ultimately responsible for safeguarding the health and safety of citizens. However, the government can devolve to industry, in varying degree, responsibility for establishing product and service standards, for maintaining quality assurance and inspection systems to ensure compliance, and for providing performance reports to assure the government of the integrity of the system and the achievement of goals. The government can verify the information from industry and conduct audits.

24.25 For example, in 1995 the federal, provincial and territorial governments issued a revised version of A Blueprint for the Canadian Food Inspection System. The document states that the longer-term objective is for governments to modify their role by refocussing their activity in the area of quality standards inspection, in favour of an audit of a company's performance against food safety and product identity standards. The federal government is implementing a food safety enhancement program to help "ensure that all processed agri-food products...and the conditions under which they are manufactured lead to the production of safe food." Industry is responsible for controlling and monitoring its critical control points in accordance with an approved plan that meets government standards. The government is responsible for checking the adequacy of the controlling and monitoring done by industry and for verifying its monitoring records. This approach is expected to allow inspectors to focus their efforts on priority areas.

24.26 The policy of shifting from regulatory regimes to reliance on industry has been controversial. Some have expressed general concerns that public health and safety could be compromised because industry would place profit ahead

of public health and safety and that there would be inadequate accountability, credibility and effectiveness. Others have raised concerns about conflict of interest when government recovers costs from industry for providing regulatory services that are supposed to protect the public from negligence by industry.

24.27 There is also concern about using third parties to assess health and safety. In 1998 Health Canada consulted Canadians on how to renew federal health protection legislation. Health Canada asked whether it should be permitted to delegate to an independent third party some of its responsibilities for assessing the safety and effectiveness of products and services sold in Canada. Health Canada's 1999 National Consultations Summary Report indicates that views on this matter are "polarized." Unless stringent precautions are taken, the report concludes that Canadians would view this approach as "an abdication by Health Canada of its responsibilities."

24.28 One argument made to support the shift in responsibilities is that major companies face an increased liability for negligence. As a result of this liability, it is assumed that the interests of the public will be protected because of the need for a company to maintain consumer confidence and avoid lawsuits.

24.29 Legislation and legal precedents create the context for civil lawsuits. In 1994 Health Canada studied the effectiveness of civil lawsuits as a deterrent to the production and supply of hazardous consumer products. The study noted that the increased liability faced by industry may not be a sufficient deterrent because it may be largely hypothetical. Despite legislation in some provinces allowing for class action law suits, citizens may still not have enough resources and opportunities to use the courts to seek redress for industry negligence.

24.30 The study found that civil litigation does not cause manufacturers to adopt measures to avoid injuries where the cost of the measures is greater than the cost of settling civil action for an injury or death. In particular, it found that litigation is least effective for injuries that are small, but affect a large group of people, or for manufacturers without a brand name to protect in Canada or with very limited assets in Canada.

24.31 Because reliance on industry arrangements are relatively new, general conclusions about their effectiveness cannot yet be reached. However, in previous audits we have suggested that the following actions need to be taken for them to work well:

- the government must clearly define the results to be achieved;
- industry must implement a sound program to measure performance and quality on which the government can rely;
- industry must provide the government with comprehensive data for the timely assessment of industry's performance; and
- the government must determine the reliability of this data from industry.

Increased use of standards developed by third parties

24.32 In 1996 the Treasury Board Secretariat initiated the standards and regulatory reform program to encourage departments to participate, where appropriate, in developing regulatory regimes based on standards. This approach has been considered useful to adapt to rapid changes in technology. For example, technology in biologics is moving quickly, and regulations need to be frequently revised.

24.33 Under this approach, responsibility for developing a standard rests with a recognized standards development organization or professional body. The objective is to develop

The policy of shifting from regulatory regimes to reliance on industry has been controversial.

standards that reflect a consensus of interested parties. While the government takes part in developing the standards, it is one of several stakeholders that include relevant professional bodies and technical experts.

24.34 Once approved and published, these standards can be referenced in whole or in part in regulations, making them mandatory rules. Regulatory authorities also can supplement the referenced standards with policies, guidelines and operating procedures according to which manufacturers must meet certain requirements and submit to periodic inspections to ensure compliance. Responsibility for updating the standards rests with the standards development organization, rather than the government. Regardless of the adopted approach, the government remains accountable for the effectiveness of the regulatory regime.

The government needs to fully assess the extent to which the standards-based approach can be applied.

24.35 Proponents believe that a regulatory regime based on standards developed by third parties provides greater flexibility than traditional government-run approaches. In particular, they believe that such a regulatory regime works well when new knowledge or technical advances require immediate changes in a standard. Proponents also feel that standards developed with the consensus of third parties also result in the following:

- the use of clearer and simpler language because these standards are not subject to legal drafting rules;
- greater flexibility in adapting to technological change;
- more acceptance, greater compliance and less need for education and enforcement; and
- greater ease in harmonizing national standards with international standards.

24.36 The government needs to fully assess the extent to which the standards-based approach can be applied and its effectiveness relative to the traditional approach.

24.37 For example, it is not clear whether there is less or more consultation using the traditional or standards-based approach. A standards-based approach may focus on reaching a consensus among experts and industry and could result in less public consultation than the traditional government regulatory process requires. Also, using a standards-based approach may not always be faster than a traditional approach, and third parties may not wish to undertake a standard setting exercise when there is the potential for significant legal liability.

24.38 Our current audit of Health Canada's regulatory regime of biologics looked at the advantages and disadvantages of using standards developed by third parties. In recent years, Health Canada has consciously moved toward adopting regulatory frameworks based on standards. The Department believes that this approach provides greater flexibility to respond and adapt to rapid advances in technology and to the diverse nature and risks presented by biologics. However, because changes to the standards can only be made by consensus under the auspices of the responsible standards development organization, Health Canada is concerned that it may not be able to make necessary changes when a consensus is difficult to reach. Yet, the Department retains the authority to make a new regulation. Health Canada is considering the option of referencing, where needed, its own technical standards over which it will have complete authority.

24.39 Legal liability for health and safety standards developed by third parties and incorporated into regulations is another issue that has arisen. Standards development organizations may not be willing to tackle a standard that would expose them to significant liability. The experience of Health Canada indicates that when standards development

organizations develop standards that may expose them to significant liability, they may have to carry insurance coverage running into the millions of dollars, and the government would probably have to indemnify them for the losses beyond an agreed amount. The federal government has recently agreed to indemnify a standards development organization by accepting to pay any possible claims that court decisions would impose beyond the amount the organization could bear to pay. However, no contract has been signed with the organization.

24.40 Health Canada is assessing its experience, and we have recommended that it uses the lessons learned in applying future standards-based regulatory regimes.

24.41 The government has also used voluntary industry codes. Industry Canada and the Treasury Board Secretariat provided guidance to federal entities on the use of such standards in Voluntary Codes: A Guide for Their Development and Use. The 1999 Health Canada report indicates that Canadians are skeptical about the effectiveness of voluntary standards. The National Packaging Protocol is an example of a voluntary industry code that the government has used. Approved by the Canadian Council of Ministers of the Environment, the protocol contains targets and a schedule for achieving a 50 percent reduction in waste going to landfill by 2000.

International harmonization of regulatory approaches

24.42 Standards establish accepted practices, technical requirements and terminologies. The government's regulatory policy requires federal entities to determine whether there is an international standard on which they can base a domestic regulation. There are also many international agreements that require Canada to adopt international standards. When departments develop regulations, they need to be concerned about consistency with these standards and standards that could be incorporated into future international agreements. As a result, federal health and safety regulations increasingly refer to standards established by international bodies.

24.43 International agreements often call on signatory nations to use similar standards. This practice harmonizes standards among nations and may be a prerequisite for increasing trade. Protecting the environment often means adopting international standards. As well, the regulation and inspection of food is increasingly part of international trade agreements and economic competitiveness. The Canadian Food Inspection Agency manages about 1,500 international agreements dealing with access to international markets.

24.44 The work on pesticide regulation by the technical working group established under the North American Free Trade Agreement between Canada, the United States and Mexico illustrates the increasing international harmonization of regulatory approaches. The working group addresses trade irritants, builds national regulatory and scientific capacity, shares the review burden and co-ordinates scientific and regulatory decisions on pesticides.

24.45 The working group has formed four subcommittees. One of them, the joint review subcommittee, develops compatible review programs of pesticides to facilitate routine sharing of work on pesticide regulation. In April 1998 the subcommittee completed its first joint review of a pesticide. The activities of the technical working group on pesticides is an example of a means of addressing the problem of scarce expert resources by sharing expertise.

Major changes in resources and organization

24.46 Key health and safety regulatory programs have undergone major budgetary and organizational changes.

Changes in Environment Canada, Health Canada and the creation of the Canadian Food Inspection Agency illustrate these trends.

24.47 Over the three years ending in 1997–98, Environment Canada's budget was reduced from $737 million to $503 million and the Department lost about 1,400 of 5,700 employees.

24.48 The government created the Canadian Food Inspection Agency in April 1997 by consolidating food inspection and quarantine services previously provided by Agriculture and Agri-Food Canada, Fisheries and Oceans, and Health Canada. These departments transferred about $330 million and about 4,500 full-time employees to the Agency. When it was created, the Agency was expected to cut its budget by $33 million over the first three years of operation.

Without credible science, health and safety regulatory programs can be challenged as untrustworthy and subservient to political policy or special interests.

24.49 Health Canada's health protection mandate spans the spectrum of health risks, from therapeutic products to food safety, to environmental safety, to product safety, and to disease risks. In recent years there have been significant fluctuations in resources for health protection as a result of the government's Program Review, program changes, and the introduction of new initiatives and priorities, such as AIDS and cancer research and blood safety. In 1997–98 the Health Protection Branch had expenditures of $146 million and some 2,000 full-time employees, compared with $216 million and about 2,300 full-time employees in 1995–96. For 2000–01, the planned budget for the Branch's activities amounts to some $303 million and about 2,300 full-time employees.

24.50 In July 2000 the Department created three new branches to integrate health promotion and protection activities. The Health Products and Food Branch, Healthy Environments and Consumer Safety Branch, and Population and Public Health Branch are now responsible for the activities of the former Health Protection Branch and Health Promotion Programs Branch.

Credibility of the use of science by government

24.51 Credible science underpins health and safety regulations. It consists of qualified people carrying out such activities as research in laboratories, establishing technical standards, analyzing databases, inspecting facilities, assessing new technologies and identifying potential threats.

24.52 The government recently published A Framework for Science and Technology Advice: Principles and Guidelines for the Effective Use of Science and Technology Advice in Government Decision Making. This report notes that "recent government decisions in the areas of natural resources management, public health and safety, and other areas have undermined public confidence and contributed to public concern regarding the ability of the federal government to address science-based issues effectively"; for example, the concerns about the safety of the blood supply reviewed by the Commission of Inquiry on the Blood System in Canada (Krever Commission).

24.53 Without credible science, health and safety regulatory programs can be challenged as untrustworthy and subservient to political policy or special interests. As a result, public confidence in and support for regulatory initiatives can be undermined. We discussed the importance of maintaining the credibility of science in government in our October 2000 Report, Chapter 12, Values and Ethics in the Federal Public Sector. We also discussed efforts to enhance the credibility of science in government.

Implementation of the precautionary principle

24.54 The complexity of managing health and safety regulatory programs has grown with the increasing focus on the

precautionary principle for decision making. The description of the principle in the *Canadian Environmental Protection Act* illustrates how the principle is being incorporated into legislation. The Act states that under the Constitution and the laws of Canada, the government must apply "the precautionary principle…where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as reason for postponing cost-effective measures to prevent environmental degradation."

24.55 Among the earliest uses of the precautionary principle (or approach) was its incorporation in the 1987 declaration of ministers on the protection of the North Sea. Variations of this principle now exist in about 10 federal and provincial Acts and agreements. Canada has also made commitments to the principle in about 20 international agreements and conventions. For example, the principle has been incorporated into the 1997 *Oceans Act*, the 1999 *Canadian Environmental Protection Act*, the 1998 Canada-wide accord on environmental harmonization and the 1999 federal strategy to prohibit bulk water removals.

24.56 Implementing the principle is not straightforward. Interpretations vary from those who believe in avoiding risks and fully erring on the side of caution to those who consider risk taking, the cost effectiveness of different levels of control and economic development. Because cause and effect relationships may not be established, the basis for regulating is more complex to define. As well, because these relationships are more uncertain, there is concern that the precautionary principle is a challenge to science-based regulation and to the allocation of resources based on risk assessment.

Potential legal liability

24.57 Companies may incur major liabilities due to negligence. Since 1990 the courts have held that regulatory authorities have a "duty of care" and that a high standard of care is necessary to fulfill this duty. As a result, authorities are more exposed to claims for regulatory negligence. Further, if an authority's inspection and enforcement program is not credible, the authority may be found liable for failing to meet its enforcement responsibilities where damage arises as a result of its omissions.

24.58 The federal government has already faced a number of court challenges about health and safety; some concern claims for faulty medical devices and tainted blood. Because it has no government-wide approach to avoid or manage litigation, the government is exposing itself to very high risks. A major effort may be needed to develop awareness of legal risks and to co-ordinate a more proactive and strategic approach to litigation.

24.59 To reduce the risk of regulatory negligence, regulatory authorities need to take a variety of measures to provide an appropriate standard of care. For example, they must ensure the following in given circumstances:

- human resources are sufficient;
- decisions to delegate are well-founded;
- risk management strategies are defensible;
- compliance and enforcement policies standards are practical;
- regulation delegated to industry is properly monitored against objectives;
- testing and approval procedures reflect recent technological standards;
- timely action is taken to prevent public harm; and
- timely advice is given to the public on dangerous products or activities.

Some of the most pressing challenges facing health and safety regulatory programs cut across departmental mandates, political jurisdictions and national borders.

Need for multi-departmental action

24.60 Some of the most pressing challenges facing health and safety regulatory programs cut across departmental mandates, political jurisdictions and national borders. The Treasury Board's 1995 Framework for Alternative Program Delivery recommended that federal departments establish collaborative arrangements with other departments, other levels of government and other sectors of the economy. Since 1995 there has been a significant increase in the number of collaborative arrangements or partnerships between the federal government and provincial governments.

24.61 In collaborative arrangements, parties share power and authority in decisions on program and service delivery and need to reconcile their legislative mandates and approaches to managing people. Because power is shared, the establishment of credible reporting, effective accountability, transparent processes and protection of the public interest become more complicated.

24.62 For example, Environment Canada is responsible for administering or helping to administer over 25 Acts and over 40 regulations. To achieve its objectives, it relies extensively on the co-operation of other government organizations, including Health Canada, Agriculture and Agri-Food Canada, and Transport Canada.

24.63 Not surprisingly, conflicts sometimes exist between these organizations about how to protect the environment, while sustaining economic development and competitiveness. In the 1999 Report of the Commissioner of the Environment and Sustainable Development, we reported that federal departments were divided on the degree and significance of risks posed by some individual toxic substances, the interpretation and application of legislation and the nature of their respective roles and authorities. We noted that this division has led to indecision, inaction and strained relations among departments and agencies.

Need for multi-jurisdictional action

24.64 In many instances, federal and provincial governments have constitutional powers over the same matter. This situation is especially true for the environment. The exercise of these powers has resulted in a substantial degree of overlap in activities and uncertainty of the limits of each government's jurisdiction. Increasingly, Environment Canada needs to negotiate bilateral agreements with the provinces to enforce its environmental regulations or equivalent regulations. An example of this approach is the collaborative arrangement between the federal, provincial and territorial governments to reduce smog. Collaboration was necessary because one level of government could not solve the problem alone. The development of the arrangement required extensive consultation (see the Commissioner's 2000 Report, Chapter 4, Smog: Our Health at Risk).

24.65 Our Office has extensively reviewed collaborative arrangements. Chapter 5 of the Auditor General's April 1999 Report, Collaborative Arrangements: Issues for the Federal Government, examined the major issues of effective participation in these arrangements. Chapter 23 of his November 1999 Report, Involving Others in Governing: Accountability at Risk, presented a governing framework for collaborative arrangements. Chapters 5 to 8 of the Commissioner's 2000 Report reviewed collaborative arrangements in the federal government; arrangements between the federal, provincial and territorial governments; and arrangements between the public and private sectors.

24.66 Our Report chapters contain the following findings:

- Departments need to define clearly "who does what." Key problem areas include unclear objectives, poorly defined responsibilities, unclear accountability and weak dispute resolution. Good interdepartmental co-ordination is limited by departments' inability to compel other departments to act, except through persuasion and negotiation.

- To be successful, federal-provincial agreements must offer clear benefits, specify roles and responsibilities, and have clear objectives, time frames and expected results. As well, each partner of the agreements needs to produce an early action plan for its own organizations.

Increased public scrutiny

24.67 Industries affected by health and safety regulatory authorities have traditionally monitored and tried to influence regulatory decisions. Organizations representing a variety of different interests in health and environmental issues are watchful. Recently, Canadians have become more aware of the personal implications of regulatory decisions.

24.68 These trends have partly occurred because many health and safety regulatory issues involve rapid and major changes in science and technology and an increased possibility of significant error. As well, there is greater public sensitivity to potential risks. For example, there is now a significant public interest in new health and food technologies and products, such as medical therapies, transplants of animal organs to humans, genetically-modified foods and natural health products.

24.69 The degree of concern also has increased because of recent events: the failure to protect the safety of the Canadian blood supply system; the British experience with mad cow disease; and the Ontario experience of deaths and illness from contaminated drinking water, and of the closing of several nuclear power plants.

24.70 Access to the Internet also allows for growing scrutiny of regulation and the approval of particular products. Electronic communication also makes it easier to organize associations. As a result, the work of health and safety regulatory authorities can be carefully monitored and lapses can attract major media and public attention.

Extensive requirements of the regulation-making process

24.71 Specific regulations are often used to protect health and safety. Regulations have the force of laws, and they confer legally enforceable rights and impose legally enforceable obligations on organizations and individuals. Regulations are often referred to as delegated legislation because in an Act, Parliament empowers the government to enact specific types of regulations.

24.72 About 85 Acts and 250 regulations are administered by Environment Canada, Health Canada, the Canadian Nuclear Safety Commission, the National Energy Board, the Canadian Food Inspection Agency, and Transport Canada. Their objectives range from protecting the environment to maintaining the safety of food, drugs and nuclear power plants.

24.73 There have been many reviews of the regulatory process and attempts to reform it. The first main documents on problems in the regulatory process include the 1980 report of the House of Commons' Special Committee on Regulatory Reform, the 1979 and 1981 reports of the Economic Council of Canada on reforming regulation, our 1989 Report chapter on the federal regulatory process and the 1992-93 report of the Standing Committee on Finance. These reports contained the following concerns:

- regulations were unnecessarily harming economic performance;

- regulations were not achieving policy objectives;

- regulations were not being implemented with a clear need, accountability and consideration of effective alternatives to regulation;

- regulations were not sufficiently assessed for their economic and social impacts;

- regulations were not developed with sufficient consultation with affected stakeholders; and

- regulations were not effectively enforced.

24.74 In response to these criticisms, the government has made major changes in the process for making regulations. It took the first major measures in 1986. The government developed a regulatory policy and a citizen's code of regulatory fairness, designated a minister responsible for regulatory affairs, and required impact analyses. Furthermore, it established the Office of Privatization and Regulatory Affairs (OPRA) to oversee the regulatory process and published annually a government-wide regulatory plan to identify all proposed regulations.

24.75 The key components of the regulatory policy were clear accountability, public consultation, assessment of regulations to ensure that benefits exceed costs, clear public information on why regulations were needed, evaluation of regulatory programs and a sound legal basis for regulatory action. Exhibit 24.2 identifies the major steps and responsibilities in the making of federal regulations.

24.76 There have been major changes to the administrative oversight of the regulatory process. In 1987 the OPRA had 14 full-time employees and a budget of about $1.9 million. It was dissolved in 1991 and the central oversight process was significantly curtailed. The responsibility for the regulatory process was no longer vested in one minister and the responsibility for ensuring the reliability of regulatory impact assessment was transferred to departments.

24.77 The Regulatory Affairs Directorate of the Treasury Board Secretariat retained the responsibility for making central policy. In 1994–95 the Directorate had 11 full-time employees and a budget of about $1.14 million. Since, it has published about 40 documents that contain technical and policy advice on managing regulatory programs, assessing alternatives to regulation, conducting regulatory impact analyses and developing new regulatory administrative policies.

24.78 The 1994 Treasury Board Secretariat Regulatory Review reflected the delegation of responsibility to departments and agencies. The Secretariat gave some guidance, but allowed departments to determine their own path of regulatory reform and apply their expertise and experience to their particular problems. In 1997 the government discontinued the publication of the government-wide regulatory plan. Each department now publishes its proposed regulations in the annual Report on Plans and Priorities to Parliament.

24.79 In 1999 the responsibilities for the regulatory policy were transferred to the Regulatory Affairs and Orders in Council Secretariat at the Privy Council Office. The Regulatory Affairs Division supports the Special Committee of Cabinet that reviews regulations. The Division provides analysis, briefing and strategic advice on department and agency regulatory proposals. It also supports the government's regulatory reform and research agendas. In 1999–2000 the Regulatory Affairs Division of the Secretariat had 12 full-time employees and a budget of about $1.23 million.

Exhibit 24.2

Major Steps and Responsibilities in the Making of Federal Regulations

Responsibility	Step
Minister and Department	Scrutinize the need for each proposed regulation.
Minister and Department	Consult stakeholders, assess risks, assess alternatives to regulation, assess cost and benefits, prepare compliance and enforcement plan, and prepare the regulatory impact analysis statement.
Department of Justice	Reviews the proposed regulation to ensure a sound legal basis, and respect for the *Canadian Charter of Rights and Freedoms* and the *Statutory Instruments Act.*
Minister	Formally recommends to the Governor in Council the pre-publication of the proposed regulation.
Privy Council Office	Reviews the proposed regulation for consistency with the federal regulatory policy and broader government initiatives. Prepares information on the proposed regulation for the Special Committee of Council.
Special Committee of Council	Reviews the proposed regulation. If approved, the regulation is pre-published in the *Canada Gazette* for at least 30 days, allowing for scrutiny and comment.
Parliament and stakeholders	Review the proposed regulation.
Minister and Department	Collect, review and assess comments on the proposed regulation. If needed, repeat previous steps in process (e.g., scrutinize the need for the regulation).
Privy Council Office	Reviews the documents that contain stakeholder comments on the proposed regulation and the departmental response to the comments. Prepares information for the Special Committee of Council.
Special Committee of Council	Reviews the proposed regulation and makes a final recommendation to the Governor in Council on whether to approve the regulation.
Governor General	Signs the regulation, which is then registered with the Registrar of Statutory Instruments. The regulation comes into force as soon as it is registered within seven days of final approval. It can only be enforced once it has been published in the *Canada Gazette*, Part II, within 23 days of registration.
Standing Joint Committee for the Scrutiny of Regulations	Reviews the new regulation, reports to Parliament on problems it may contain and proposes, if necessary, that it be repealed.

Source: Government Regulatory Process Management Standards: Compliance Guide

Implementing Health and Safety Regulatory Programs

24.80 Our analysis and recommendations are based on our current and previous audits of health and safety regulatory programs.

24.81 Our findings over the past decade on how well the government has been implementing health and safety regulatory programs are presented on pages 24-21 to 24-28.

Improving Regulatory Programs

24.82 The overall objective of health and safety regulatory programs is to proactively protect Canadians from major risks to health and safety — to catch the problem before it happens, and if it happens, to minimize the consequences. Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

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24.83 It is also important to keep in mind that there are often complementary and compensating factors that offer a depth of protection. For example, the expertise of managers and employees who work at the Canadian Food Inspection Agency, at Health Canada and in the food supply system protects Canadians. Employees of supermarkets and local stores also screen foodstuffs on shelves for spoilage. Equally important are the skills of shoppers and those who prepare food at home and in restaurants.

24.84 However, despite a wide safety net, major regulatory failures can occur, and the results can be significant. The results of not being able to ensure the safety of the blood supply are an example.

24.85 The objective of the government's regulatory policy is to promote the design and implementation of effective regulatory programs. Over the past decade, our audits of federal health and safety regulatory programs have found many instances where regulatory authorities have not met the expectations of the government's regulatory policy. While effectiveness or exposure to risk cannot be judged solely on the basis of adherence to the policies, well structured and implemented programs increase cost effectiveness and reduce the risk of regulatory failure.

Clarifying priorities and values

24.86 Health Canada's 1999 National Consultations Summary Report found that Canadians believe that "health and safety must take precedence over economic and other considerations." However, the government's regulatory policy contains potentially conflicting requirements. The policy requires that costs and economic objectives be considered when developing and implementing regulatory programs. In our view, there is a need for the government to clarify the priorities of the regulatory policy for health and safety regulatory programs and clarify the balance it has reached to protect Canadians and address costs and other objectives.

24.87 Our concern for priorities of these programs stems from the emphasis on economic considerations in the regulatory policy, potential conflicts of interest arising from the cost-recovery policy, and the government's recent focus on client service.

24.88 The regulatory policy emphasizes the need for regulatory authorities to take into account economic considerations. Since 1986 the policy has focussed attention on the importance of limiting the impact of regulation on the economy. In 1996 the Treasury Board Secretariat directed departments to use a business impact test that would determine the impact of regulations on the private sector.

(continued on page 24-29)

Implementing Health and Safety Regulatory Programs

1. We have used the following major elements of the government's regulatory policy to organize information on the development and implementation of health and safety regulatory programs:

- identification and management of risks to health and safety;
- consultation with citizens on regulatory approaches and with stakeholders on proposed regulatory initiatives and the manner of their implementation;
- adherence to the regulatory process management standards for making regulations;
- management of human resources;
- recovery of costs of services provided to industry that benefit private interests;
- compliance and enforcement of regulations; and
- timely and complete reporting on program effectiveness to Parliament.



Risk Identification and Management

2. Background. The federal regulatory policy requires that regulatory authorities demonstrate that a problem or risk exists and that federal government intervention is justified. Sound procedures to identify and manage risks to human health and safety are needed to implement this policy requirement. Such procedures allow regulatory authorities to ensure that their programs focus on priorities, that government intervention is required and that funds and human resources are allocated to the best advantage.

3. Managing health and safety risks to Canadians is a complex task. While risks can be reduced, they cannot be entirely eliminated. It also is difficult to separate Canadian and international aspects of risks. In addition, the scientific assessment and public perception of risks may differ. The extent of resources allocated to reducing a specific risk is often heavily influenced by the public's tolerance of loss of life or injury.

4. As well, the extent to which risks can be reduced depends on factors such as technology, human and financial resources, availability and dissemination of information, choices made by individuals, genetic and socio-economic factors, competing policy priorities, economic competitiveness and trade agreements.

5. Risk management process. In October 1997 the Canadian Standards Association published a national standard for Canada, Risk Management: Guideline for Decision-Makers. This standard is similar to the processes in the Treasury Board's 1994 risk management policy. The Association's approach combines scientific assessments of risks with extensive stakeholder consultations and public communication.

6. Risk management, broadly defined, includes the following key elements:

- identifying risks, the risk management team and potential stakeholders;
- risk communication;
- assigning responsibility, authority and resources;
- conducting a preliminary analysis to define the scope of required decisions and risk scenarios;
- estimating the frequency and consequences of the risks;
- estimating the level of stakeholder acceptance of risks and the benefits and costs of containing the risks;
- identifying and assessing feasible risk control options, evaluating options for dealing with residual risks and assessing stakeholder acceptance of residual risks; and
- developing an implementation plan, evaluating the effectiveness of the risk management decision process and monitoring the effectiveness of the risk reduction program.

7. Patterns of findings. Our audits have regularly raised concerns about significant risk management in health and safety regulatory programs. In certain cases, they have identified incidents that posed threats to public safety, government personnel and the environment.

8. Our previous audits have found that regulatory authorities were having major difficulties identifying and managing health and safety risks. We found examples of inadequacies in the following:

- risk identification;
- risk assessment methodology;
- information on the extent of risks to health and safety; and
- information on potential liabilities.

9. Our current audits continue to find examples of deficiencies in risk identification and management:

- there is a lack of important information on the incidence of food-borne illness in humans and the prevalence of pathogens in the food supply;
- Health Canada has encountered a number of problems with the surveillance of biological drugs after they have been approved for sale, including the surveillance of adverse reactions and events;
- the Canadian Nuclear Safety Commission needs to strengthen its risk analysis and assessment of licensee performance; and
- the National Energy Board has not assessed the health and safety risks associated with making regulations for onshore pipelines less prescriptive.

10. However, there have been improvements. For example, the Canadian Food Inspection Agency has enhanced its surveillance activities for animal and plant health and is incorporating information gathered from these activities into its risk assessment process. Health Canada has adopted a proactive approach to identifying health and safety risks arising from biologics. Overall, Transport Canada has made satisfactory progress in applying systematic risk analysis for its air navigation regulations and enforcement activities.

11. Government's assessment. In March 2000 the Treasury Board Secretariat consolidated the results of the assessments of comptrollership practices by five pilot departments. The Secretariat's findings are consistent with our own. For example, it concluded the following:

- although risk management is understood intuitively, only a few departments have begun to establish a formal risk assessment framework;
- managers need better tools to assess risks, and there is often little training available; and
- frameworks for the delegation of authority exist, but there is a need to review them in light of greater decentralization.

Consultation and Co-ordination

12. Background. The government has increasingly recognized that it cannot solve problems alone. It has also recognized that wide-ranging consultation is needed to gain the co-operation of affected parties, to develop the most effective regulatory approach and to foster compliance and the achievement of objectives.

13. The 1986 federal regulatory policy stated that Canadians were to be consulted in the making of regulations. This requirement has been reiterated in all subsequent versions of the policy. According to the current policy, regulatory authorities must ensure that "Canadians are consulted and that they have an opportunity to participate in developing or modifying regulations and regulatory programs." This statement sets a clear expectation that Canadians will be consulted on regulatory programs, not just on specific regulations.

14. Patterns of findings. The 1993 report of the Sub-Committee on Regulations and Competitiveness of the Standing Committee on Finance identified consultation as one of the areas that present problems. The subcommittee recommended that there be greater stakeholder involvement in setting regulatory goals and determining the means of achieving them.

15. Overall, we have found that regulatory authorities are investing a lot of time and resources in trying to meet increased public, industry and intergovernmental demands for consultation. In some cases, we have reported that consultation has worked well. For example, in the Auditor General's 1997 Report, Chapter 27, Ozone Layer Protection: The Unfinished Journey, we indicated that stakeholders had expressed a high degree of satisfaction with Environment Canada's consultations.

16. In other instances, consultation could have been significantly improved. Our Commissioner's 1999 Report, Chapter 2, Sustainable Development Strategy Consultations, reviewed the consultation process undertaken by 28 departments and agencies to develop sustainable development strategies. Our review of consultation plans for preparing departmental sustainable development strategies revealed that the objectives of the consultation were generally clear. However, the Commissioner's Report raised the following concerns:

- there were major differences in the quality and comprehensiveness of consultation plans among departments;
- fewer than half of the departments had internal policies or guidelines for consultation;
- departments often did not co-ordinate their consultations with other departments;
- most departments did not consult stakeholders on the design of their sustainable development strategy;
- consultation with other departments was often too late for their comments to be realistically incorporated into any report, other than in a cosmetic fashion;
- few departments evaluated their consultation process; and
- participants received uneven feedback on how their comments were considered.

17. Our current audits continue to find improvements in the consultation process. For example:

- there was extensive consultation on legislative changes relating to the Canadian Nuclear Safety Commission;
- Health Canada has taken steps to identify stakeholders and consult them on proposed changes to regulatory frameworks for some biologics; and
- Transport Canada developed the Canadian Aviation Regulations through a structured, national consultation process.

The Development of Regulations

18. Specific regulations are often used to protect health and safety. The development of regulations is subject to the government's regulatory process management standards. We looked at whether regulatory authorities were following existing standards in our 1989 Report chapter on the federal regulatory process and in our 1993 Report chapters on the development of pulp and paper regulations, the firearms control regulations and parliamentary control over user fees. We did not review these matters in other previous audits or in our current audits.

19. Government self-assessments. In 1995 the Treasury Board Secretariat directed seven major regulatory organizations to implement by December 1996 mandatory quality assurance standards for the regulatory process. These standards were contained in the 1995 Treasury Board's publication, Regulatory Process Management Standards.



20. These organizations were also required to use the standards to determine their compliance with the government's regulatory policy, and report back to the President of the Treasury Board by 31 December 1999. The Board had received self-assessments from the organizations, including four from organizations that focus on health and safety regulatory programs: Health Canada, Transport Canada, the Canadian Food Inspection Agency, and Environment Canada.

21. The Privy Council Office has had the results of the self-assessments consolidated to assess current capabilities on a government-wide basis (see exhibit below). Overall, the consolidation identifies four areas of strength. The areas demonstrate good to advanced management capability. They include monitoring the regulatory environment, identifying potential problems, consulting and communicating with stakeholders, and ensuring interdepartmental co-ordination.

22. Thirteen areas were identified as "opportunities for further development," including better mechanisms for assessing the need for regulation, better capabilities in cost-benefit analysis, more clarity on the approach to resourcing regulatory programs and better performance measurement.

23. Six of the areas where there are opportunities for further development are rated as being in the "early stages of development" (see exhibit below). These areas include performance measurement and accountability, the ranking of problems and issues in order of priority. The remaining areas fall in between the "early stages of development" and "good management capability."

Highlights of Strengths and Opportunities for Further Development Among Regulatory Authorities

Strengths	Opportunities for further development
• Monitoring of the regulatory environment for gathering intelligence on issues and problems, and identifying potential problems. • Consultations with stakeholders, and strong relationships that exist with stakeholders. • Communications with stakeholders and the range of media used to communicate. • Interdepartmental and intergovernmental co-ordination and harmonization.	• **Better mechanisms for assessing the need for regulation and ranking regulatory proposals in order of priority.** • Stronger linkages between regulatory plans and overall departmental planning. • Improved capabilities to assess regulatory and non-regulatory alternatives. • Better capabilities in cost-benefit analysis, the assessment of the regulatory burden and preparation of the regulatory impact analysis statement. • More clarity in the approach to resourcing the delivery of regulatory programs. • **More training programs for regulatory staff in program areas.** • **Better performance measurement systems and accountability for regulatory programs, with a focus on outcomes.** • **More consistent complaint- and dispute-resolution processes.** • **Improved documentation on the regulatory management program and processes.** • **A more formalized approach to ongoing review and improvement.** • Simplification of the process and guidelines of the regulatory process management standards (RPMS). • More standardized reporting by departments and agencies against the RPMS. • Dissemination of best practices.

Note: Bolded "opportunities for further development" are rated as being in the "early stages of development."

Source: Treasury Board Secretariat, Privy Council Office.

24. Regulatory impact analysis statement. In August 2000 the Privy Council Office completed a review of the usefulness of the regulatory impact analysis for decision making and the development of regulations. The government's regulatory policy requires regulatory authorities to publish information on the proposed regulation in impact analyses. The information is expected to describe the purpose of the proposed regulation, present the results of reviews of a range of regulatory and non-regulatory alternatives, summarize the results of consultations, indicate the benefits and costs of regulating and describe proposed compliance and enforcement policies and measures.

25. The review focusses on six regulations initiated by major regulatory authorities. On the whole, the review concludes that the requirements of the regulatory impact analyses have changed the regulatory process for the better. In particular, the review indicates that for major regulations, a large amount of information is being provided to the public and government decision makers, and consultation is extensive.

26. However, the review cautions that the descriptions of regulations or problems need to be clearer, assessments of regulatory and non-regulatory alternatives and costs and benefits can be significantly improved, and descriptions of compliance policies and approaches need to be more complete. The review also makes recommendations to improve the relevance and usefulness of regulatory impact analysis statements.

27. We are concerned that the quality of cost-benefit analyses or impact assessments still needs major improvement. In 1989 and 1993 we expressed concerns about the quality of these analyses and assessments. These procedures are intended to provide an objective assessment of whether the social and economic benefits of adopting a regulation outweigh the costs. Without this information it is difficult for the public and decision makers to have as reliable a basis as possible for understanding what the regulation will achieve and how much it will cost.

28. Report of the Public Policy Forum. In February 2000 the Public Policy Forum released a report, Managing Regulation: Policy, Practice and Prognosis. The report presents the results of a multistakeholder roundtable in the fall of 1999 on the federal government's regulatory process and its implementation. The stakeholders included 15 industry associations, five federal departments and agencies, two provincial governments and the Consumers' Association of Canada.

29. According to the report, there is a general consensus that the regulatory policy is sound, but a "disconnect appears to exist between the Policy and its implementation across government departments and agencies."

30. In particular, stakeholders at the roundtable stated the following:

- the regulatory development process often lacks fairness;
- the techniques of regulatory impact assessment, such as cost-benefit analysis, tend to be misused or manipulated to support a position;
- the process is too slow, procedural and rigid;
- there is still a tendency for the government to regulate, not to find alternative solutions;
- the widespread practice of regulation by negotiation and bargaining raises concerns over the consistency of laws and rules.

Human Resources

31. Background. The regulatory policy requires that regulatory authorities "when managing risks on behalf of Canadians, …must ensure that limited resources available to [the] government are used where they do the most good." This requirement is difficult to achieve when risk assessment is weak.



32. The primary human resource challenge facing health and safety regulatory programs is obtaining sufficient funds to hire staff and determining the type and number of staff and their competencies. The programs also need to maintain a sufficient number of inspectors who are well trained in the most up-to-date methods and technologies and led by people with a broad understanding of the work they do. About 5,000 inspectors work in health and safety regulatory programs. Most of them work at Health Canada, the Canadian Food Inspection Agency, and Transport Canada.

33. Pattern of findings. Our previous audits have often found instances of insufficient resources to carry out responsibilities. For example, we found that there were insufficient resources to do the following:

- to oversee in the long term the radiation safety program and nuclear safety compliance;
- to deal with new issues in the national energy sector; and
- to apply and maintain specialized knowledge and technical expertise in deep geological disposal of radioactive waste.

34. Our current audit findings indicate that the Canadian Nuclear Safety Commission, the regulatory regime for biologics of Health Canada and the Canadian Food Inspection Agency are experiencing or will experience some major staffing problems.

35. The situation in Health Canada illustrates the problems and their consequences. Following the 1997 report of the Commission of Inquiry on the Blood System in Canada (Krever Commission), the government announced in 1998 that it would invest $125 million over the next five years to strengthen Health Canada's blood safety program, including regulatory and surveillance programs for related biologics. The government also gave the Department the authority to start hiring 84 full-time employees in 1998-99 and up to a total of 133 by 2002-03.

36. The Department indicates that it has yet to fill 30 of 94 positions allocated to the Therapeutic Products Programme in 1999-2000. Vacant positions were identified as either "staffing in progress" or "staffing to be initiated" and pertained to compliance and enforcement investigations, pre-market and post-market reviews, post-market surveillance, regulatory research and policy development. According to the Department, these shortfalls were the result of a number of factors, including lengthy staffing processes, the unavailability of qualified candidates, non-competitive salaries and the unwillingness of potential candidates to work in biologics in a post-Krever environment.

37. The staffing problems have a significant impact on the Department's ability to manage the workload of pre-market reviews of new biological products and conduct post-market assessments. The result is a significant backlog of new biological drug submissions, failure to meet established performance targets and incomplete post-market assessments. These problems are expected to worsen with the implementation of proposed changes to the regulatory framework for clinical trials. The present 60-day default period for approval will decrease to only 30 days for many clinical trial submissions. While authority was given to increase staff levels, Health Canada expects that it will have difficulty obtaining additional qualified resources in the immediate future. At the current level of staffing, it is estimated that this change will further increase the backlog of new biological drug submissions.

38. Other regulatory authorities are also experiencing difficulties. The Canadian Food Inspection Agency estimates that by 2006, 734 of its indeterminate employees will be eligible to retire, including about a third of inspectors and veterinarians. The Agency is already having some difficulty recruiting for some positions.

39. While the Canadian Nuclear Safety Commission has set priorities and developed a number of important human resource policies and practices, it also faces difficulties in hiring scientific and technical staff. Despite management's initiatives, the present vacancy rate is high, and positions are vacant for long periods. In addition, the employee population is aging and could suffer from a loss of leadership and experience.

40. Government's assessment. The government's assessment of human resource issues in regulatory organizations is consistent with ours. The government has identified major risks in retaining and recruiting inspectors. The Committee of Senior Officials has assessed the government's capacity to carry out its core regulatory and inspection functions. The committee's November 1999 report, A Public Trust: Keeping Canadians Safe and Healthy, identifies a number of key problems facing these functions. It reveals an aging population, many vacancies, few recruits and high attrition rates in some key areas. The data shows that these problems will become more serious in the next few years.

41. The committee's report notes the following:

- The workload of inspectors has increased dramatically, and the cost of training inspectors is high. For example, Transport Canada can spend up to $150,000 and take up to two years to fully train an inspector.
- The government is competing for scarce human resources in a highly competitive market. Key specialists in some diseases command salaries of over $200,000 in private practices. In areas such as aviation and marine engineering, the wage gap between the public and private sectors now exceeds 40 percent. It is unlikely that the government will be able to bridge gaps of this magnitude.
- Career progression is done through promotions to management, but this path is not always the best one for scarce expertise.
- There is concern for the status of personal liability of inspectors and the damage that their decisions could cause. Uncertainty has made some inspectors adopt an extremely conservative approach to risk management.

42. The report notes that the regulatory and inspection community is much older than the public service as a whole and that it has a high departure rate due to high retirement eligibility. As well, based on historical trends, significant non-retirement departures can be expected. Recruits are almost entirely from outside the public service, which maximizes competition with industry. Due to unique accreditation requirements, there is also low mobility between regulatory programs.



43. The report notes that by 2008, about 40 percent of the regulatory and inspection community will be eligible to retire, compared with 33 percent for the public service as a whole. However, it points out that certain inspection groups have a higher rate of projected retirement eligibility. For example, the rate for the group that deals with the food standards regulation is about 48 percent.

44. The report also notes that the role of inspectors has changed significantly. Traditionally, government inspectors examined processes and products, assessed their safety and took required action or designed the rules that must be followed to reduce risks to acceptable levels. Now they educate industry, encourage change, monitor activities and enforce regulations. This current role aims to build expertise in industry and to increase the probability that industry will operate within regulations.

45. The report points out that the new educational and monitoring functions are far more complex for the inspector. The inspection community has found it difficult to interpret the meaning in their operational context of the client service vocabulary, which has been prevalent in the government. Competencies now required of inspectors also include a range of soft skills to teach, monitor activities, encourage changes in attitude and develop new competencies in the industry client.

Cost Recovery

46. Background. Health and safety regulatory programs recover a portion of their operating costs from regulated industries. Information indicating the proportion of program funding that is based on cost recovery is not readily available. We estimate that health and safety regulatory programs collected about $154.6 million in 1997-98. Depending on the legislation, these funds can be re-spent by regulatory authorities, or they become part of government general revenues.

47. In 1999-2000, the Canadian Food Inspection Agency collected about $54 million (or 13 percent) of its total expenditures of about $416 million. It is authorized to re-spend these funds. Health Canada's Therapeutic Products Programme, which regulates drugs and medical devices, recovered about $40 million (or 63.5 percent) of its total expenditures of $63 million. All of these funds are re-spendable by the department.

48. In 1997-98, the National Energy Board recovered about $24.7 million (or 88 percent) of its total expenditures of some $28 million. These funds became part of the government's general revenues. The Atomic Energy Control Board, now the Canadian Nuclear Safety Commission, collected $30.8 million (or about 70 percent) of its total expenditures of $43.8 million. These funds also became part of the government's general revenues.

49. The federal government states that it will only initiate cost recovery for an activity that is legitimate and necessary, that is not available in the private and voluntary sectors, and that offers identifiable recipients direct benefits beyond those received by the general public. In 1994 the government made cost recovery a priority for departments and agencies. It undertook this initiative, while cutting spending to eliminate the deficit. Fees were introduced for many services previously offered at no cost.

50. Ministers are responsible for implementing and amending user charges in their area of responsibilities. By linking service costs to the fees it charged, the government expected that industry could scrutinize fees to ensure that they were fair and that the services were being delivered efficiently. The President of the Treasury Board is the point of contact for clients who feel that departments have not given them a fair hearing in the fee-setting process.



51. The objectives of the cost-recovery policy are the following:

- to promote the efficient allocation of resources;
- to promote an equitable approach to financing government programs, mandatory or otherwise, by fairly charging clients or beneficiaries who benefit from services beyond those enjoyed by the general public; and
- to earn a fair return for the Canadian public for access to, or exploitation of, publicly owned or controlled resources.

52. The policy requires that departments and agencies do the following:

- undertake meaningful consultations with clients throughout the fee-setting process, including the conduct of impact assessments and establishing a dispute-resolution process;
- follow appropriate costing and pricing practices;
- treat all user charge revenues as public funds; and
- spend these revenues only with the prior approval of Parliament and the Treasury Board.

53. Pattern of findings. We have reported to Parliament a range of major concerns about the implementation of the cost recovery policy. We reviewed the implementation of user fees in our 1993 Report, Chapter 25, Parliamentary Control Over the Raising of Revenues by Fees. More recently, we comprehensively reviewed the management of user fees by Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency. The findings in our September 1999 Report, Chapter 11, Agriculture Portfolio — User Charges, illustrate our concerns.

54. The concerns that we reported included instances of the following:

- inadequate legislative frameworks;
- inconsistent cost identification and allocation methods;
- a lack of specific and enforceable guidelines to price services;
- unclear definitions of private and public benefits;
- a lack of co-ordination by central federal agencies;
- a lack of consolidated information for planning and reporting;
- a lack of information on user charges to concerned parties, including fee revenues not published in the annual budget;
- inadequate impact assessments;
- a lack of an open, clear and independent appeal process for those affected by user charges; and
- a need for broader consultation on service charges to take into account the interests of the public and of those who pay fees.

55. As part of the current audit of Health Canada's regulatory regime for biologics, we examined cost recovery for reviewing biological drugs. Since 1994-95 the Department partially recovers from the manufacturer the costs of reviewing biological drugs for market approval. The drug industry expected that cost recovery would help the Department meet established performance targets of shorter duration. However, we did not find clear objectives linking cost recovery and shorter approval times. For new biological drugs approved in 1999, the Department took an average period of 328 days (compared with a performance target of 180 days) to review priority-status submissions and 545 days (compared with a performance target of 300 days) to review non-priority status submissions.

56. In its recent evaluation of the cost-recovery initiative, the Department found that it is difficult to separate public and private benefits of cost recovery for biological drugs.

57. Report of the Standing Committee on Finance. In June 2000 the House of Commons' Standing Committee on Finance published its review of cost-recovery in government, Challenge for Change: A Study of Cost-Recovery. The committee examined whether the Treasury Board's cost-recovery and charging policy is being implemented consistently in the government and whether the Board's policy is sound. The concerns of the committee are similar to ours.

58. The committee found that the policy generally conforms to sound economic practices. However, government departments are not implementing the policy consistently, and central supervision and dispute resolution is ineffective or absent. The committee raised concerns that user fees are perceived as a tax, rather than prices for services, and that departments do not seem to be following the guidelines originally set out in the cost-recovery program.

59. The committee also reported that some groups are concerned about the potential threat to the integrity of regulatory programs because of the reliance of regulatory authorities on cost recovery for funding.

60. The committee concluded that a government-wide assessment of the cost and benefits of user fees is needed. Treasury Board Secretariat officials told the committee that a review of the cost recovery policy is under way and should be completed by the winter of 2001.

Compliance and Enforcement

61. Background. Regulations set legal process or requirements for industries involved in activities that affect health and safety. To be in compliance, a company must meet these requirements. To ensure compliance, regulatory programs need to ensure that those who must comply with the laws understand what is expected of them and that the laws are enforced in a fair, predictable and consistent way. Regulations have to contain provisions that are consistent, understandable, measurable and enforceable.

62. The complexity of enforcement depends on the nature of a regulation. The age of a law or regulation often determines the quantity and quality of compliance information that is available. Some regulations cover an ongoing activity in a specific area, such as the production of pulp and paper. Other regulations may refer to more transient activities that are more difficult to monitor, like the transport and disposal of hazardous waste. Lastly, regulations can impose complex technical requirements; the procedures to verify compliance with these requirements can also be complicated.

63. Compliance and enforcement also are areas significantly affected by technological changes, pressures from economic competitiveness, insufficient human resources, public scrutiny and reliance on collaborative arrangements with the provinces and territories.

64. Inspection programs verify compliance with the laws and their regulations. A plan identifies the type and frequency of inspections and monitoring activities that have to be conducted. The plan usually considers priorities, historical problems, operational factors and regional variability. Inspections can also take place in response to specific incidents.

65. Departmental policies or procedures list a number of actions that can be taken to remedy situations of non-compliance. These actions range from verbal and written warnings to criminal prosecutions. According to the report of the Committee of Senior Officials, A Public Trust, regulatory authorities are increasingly focussing on achieving compliance by seeking conformity with the law through educational programs, the encouragement of technology transfers and self-evaluation.

66. Pattern of findings. Our previous audits revealed recurring weaknesses in compliance and enforcement, including the following:

- unclear objectives for compliance with legal and policy requirements;
- inadequate identification of the regulated community, an ineffective process for determining the companies to inspect, and inconsistent inspection coverage of the regulated community;
- a lack of using risk assessment to focus inspection activities;
- inadequate information on the incidence of non-compliance and related consequences;
- inadequate implementation of audit and inspection programs with results fed into performance measures;
- insufficient random inspections to detect and prevent incidents of non-compliance;
- over-reliance on voluntary compliance with limited verification to demonstrate that this reliance is justified; and
- an absence of national reviews to ensure that different regions use consistent procedures.



67. Our current audits continue to find deficiencies in ensuring compliance with health and safety regulatory requirements. For example, the Canadian Nuclear Safety Commission's compliance and enforcement framework is incomplete. It needs to promptly develop outstanding regulatory documents and implement its compliance and enforcement policy.

68. For problems of non-compliance, the Canadian Food Inspection Agency's policy requires that inspectors take action to ensure compliance in the shortest time frame and to prevent the problems from recurring. Our review of a sample of cases noted that the compliance actions were not sufficient to achieve the Agency's goal because of limitations in legislation or a failure by the inspector to take more serious compliance action.

69. Our audit of Health Canada's regulatory regime for biologics contains findings about establishments that process and distribute semen for assisted conception. These findings illustrate the risks posed by incomplete inspection approaches. In June 1996 Health Canada implemented regulations governing these establishments. However, it started to monitor and inspect them only in March 1999. Although an accreditation process and inspection regime was intended to be part of the 1996 regulatory framework, these activities did not occur. There were no plans established before 1999 for the inspection of semen processing facilities, nor were there any standard operating procedures for inspection.

70. In March 1999 problems identified by an Ontario human semen bank initiated a national investigative inspection by Health Canada of all known semen establishments that following summer. The Department found that 43 of the 51 establishments under investigation did not fully comply with the regulations. Of these 43, 17 did not perform the required tests for specific infectious diseases and more than half did not maintain sufficient records for Health Canada to

determine that they had done the required tests. As a result, the Department detained much of the semen supply for assisted conception in Canada, which created considerable anxiety among recipients.

71. Although problems continue to exist in health and safety regulatory programs, there have been improvements. In April 1999 Health Canada established a program to inspect all known semen establishments, and it began to formulate and test standard operating procedures for investigative inspections. In addition, the Department has given formal training to compliance officers to ensure that they have the necessary knowledge and skills to do their work. At the Canadian Food Inspection Agency, four of the five alternative service delivery arrangements for animal and plant health have devoted considerable attention to monitoring, controlling and auditing compliance. Transport Canada's Air Navigation Services and Airspace Branch has completed over 150 audits and inspections to date and identified 130 findings and observations. The Branch's enforcement actions have included counselling, monetary penalties and license suspensions.

Reporting on Effectiveness

72. Background. The Treasury Board requires departments to prepare performance reports in the fall of every year. The reports, as part of the government's Main Estimates, are tabled in the House of Commons and referred to the appropriate standing committee. They are intended to provide information on achieved results. Some federal entities have legislated reporting requirements, such as the Canadian Food Inspection Agency which is required to report performance in its annual report.

73. Pattern of findings. Our previous audits of reporting on the effectiveness of health and safety regulatory programs identified serious weaknesses, such as the following:

- a lack of specific requirements for reporting;
- an inconsistency and incompleteness of data;
- an absence of common protocols to measure and estimate incidents to make results comparable;
- an insufficient verification of actual results; and
- a lack of performance indicators to support statements of achieved results.

74. Our audits also identified instances where Parliament was not adequately informed:

- On the results of national efforts on smog reduction, Parliament did not receive meaningful, comprehensive and timely information about action on the promises made to Canadians in 1990.
- On the results of agreements under the *Canadian Environmental Protection Act*, Parliament received incomplete and outdated information.
- On the achievement of program objectives for the disposal of hazardous waste, Parliament did not receive information on actual spending, achieved or likely achievable results and constraints.
- On federal food safety activities, Parliament did not receive a description of the objectives of the federal food safety system, the roles of involved departments, and the results achieved;
- On the animal and plant health inspection program, Parliament received inadequate information to understand and assess the program's performance and response to serious outbreaks of diseases and pests.
- On nuclear power plants and licenses for prescribed substances and radioisotopes, Parliament received limited information on licensing actions and the number of compliance inspections.



75. Our current audit findings continue to find deficiencies in reporting on effectiveness. For example, The *Canadian Food Inspection Agency Act* requires the Agency to prepare a corporate business plan and an annual report to Parliament. The business plan must specify objectives and expected performance against these objectives. The 1997-2000 plan contains only limited information on milestones, time frames, expected level of effort, and measures of goal achievement. The information provided is not adequate because it does not allow Parliament and the public to determine how well the Agency is performing.

76. The Canadian Nuclear Safety Commission, like other nuclear regulators, has had difficulty in reporting performance. While its annual report contains many measures, the Commission needs to develop meaningful performance expectations and report measures within a clear context and strategy.

77. Transport Canada has made progress in reporting on effectiveness by publishing annual reports of the Air Navigation Services and Airspace Branch. However, significant deficiencies exist in ensuring the quality of the safety data. In 1997 we indicated that Transport Canada should conduct formal reviews of the quality of the air safety data that it receives from NAV CANADA. The Department has still not conducted or planned any formal review of such data.

78. The incident rate for losses of separation (the spacing required between aircraft) is a primary indicator of safety performance for an air navigation service provider. To be useful for both management and accountability purposes, it is critical that this data be timely and correct. The Department has not yet reconciled the reports of the Civil Aviation Daily Occurrence Reporting System (CADORS) with data from the incident-reporting system operated by the Transportation Safety Board of Canada. Further, the Department's audit regime for NAV CANADA does not include tests of the completeness and accuracy of the CADORS reports by reference to primary sources (radar and voice tapes). An other jurisdiction that has carried out these tests has found that self-reporting systems tend to understate the occurrence of incidents.

(continued from page 24-20)

24.89 This economic emphasis also appears in the most recent revision of the policy in November 1999. The policy requires regulatory authorities to minimize adverse impacts on the capacity of the economy to generate wealth and employment and to impose no unnecessary regulatory burden. In addition, the authorities must ensure that information and administrative requirements are limited to what is absolutely necessary and that they impose the least possible cost; the special circumstances of small businesses are addressed; and parties proposing equivalent means to conform to regulatory requirements are given positive consideration.

24.90 The study of cost recovery by the Standing Committee on Finance raises a concern for the effect of cost recovery on the priorities of health and safety regulatory programs. The concern is that the government's policy on cost recovery to fund regulatory efforts may be creating a potential conflict between the public interest and the interest of private organizations that are paying fees to help fund regulatory programs. For example, the committee was told about concerns regarding the effect of cost recovery on the drug review process. The Auditor General told the committee that "as there is a greater dependency on fee recovery, a client-provider relationship could be established, and in some areas that may not be entirely healthy." He indicated that there is a need for direction on how to avoid potential conflict of interest.

24.91 The government has focussed on introducing the concept of client service as a public service value. A Public Trust: Keeping Canadians Safe and Healthy, the November 1999 report of the Committee of Senior Officials, reviews the consequences of this concept for the inspection and regulatory community. The report notes that adoption of the concept "has been driven by a wide range of government initiatives and directives, providing a pervasive message to all public servants." It also reviews the difficulties that the community encountered in implementing this direction. The report concludes that a key issue for the community was "the need to shift the language for this group away from the 'client service' vocabulary, towards a discussion of 'Protecting the Public Interest'." The clarification is also needed because government is often both a regulator and, directly or indirectly, a promoter of the industries that it regulates.

24.92 Our October 2000 Report, Chapter 12, Values and Ethics in the Federal Public Sector, and the 1996 Report of the Task Force on Values and Ethics in the Public Service (Tait Report) raise concerns about giving client service equal or more emphasis than the public interest.

Many of the difficulties faced by regulatory authorities can be attributed to a lack of comprehensive systems to identify risks.

24.93 By clarifying the priorities of its policies, the government may also address the continuing concerns that stakeholders have about the regulation-making process. While transparency in decision making is required, the government needs to determine whether these concerns stem from its cost-recovery policy and its consultation process, which is encouraging expectations that cannot be met. For example, it needs to ensure that it is not raising the expectation that regulatory authorities are accountable to industry and other stakeholders.

24.94 The federal government should explain to Canadians and the government's regulatory and inspection community its priorities for health and safety regulatory programs, particularly the balance that the government has reached to protect Canadians and address budget, social, economic and trade objectives. The government should revise its regulatory policy and other policies to reflect this emphasis.

24.95 Many of the difficulties faced by regulatory authorities can be attributed to a lack of comprehensive systems to identify risks. Surveillance systems need strengthening and important baseline data needs to be collected, while safeguarding the privacy of individuals. Expert advisory committees can be used as a supplement to direct surveillance or as a substitute in situations where little data exists, such as the effects of new biotechnologies.

24.96 Without these improvements, it will be difficult for regulatory authorities to scientifically assess risk, conduct cost-effective audits and inspections, determine the human resources they need or allocate staff, and assess whether they are achieving objectives or whether their inspection programs are working. As well, the authorities' exposure to liability will become more difficult to manage.

24.97 In the absence of data from surveillance systems to focus the allocation of resources, authorities may have to respond to funding reductions by spreading the cuts across activities. New regulatory problems may further strain resources, for example, the monitoring of new medical and biological technologies, such as transplants of animal tissue to humans and the prevention of microbial contamination of food.

24.98 The lack of a sound risk identification system means that health and safety regulatory programs are vulnerable to crises and public outrage at regulatory failures. It may also make it more difficult to effectively apply the precautionary principle. As well, there is no solid basis for discussions with industry or special interest groups.

24.99 Government initiatives to improve risk management are in their preliminary stages. The 1997 Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada identifies risk management as one of the key elements of modern comptrollership. In 1998 the Treasury Board Secretariat prepared an action plan to develop a "results-oriented approach to risk management."

24.100 The Privy Council Office is leading a task force to design a comprehensive framework for the application of the precautionary principle. The objective of this initiative is to improve the predictability, credibility, and consistency of precautionary approaches, which would ensure adequate, reasonable and cost-effective application of the principle. This framework is needed to guide regulatory authorities on how to incorporate the precautionary principle into their risk identification and management procedures. Seven interdepartmental working groups have been established to look at key issues, such as the scientific basis for applying the principle, transparency, accountability and public involvement. The Privy Council Office expects to present an endorsed government position on the precautionary principle by the spring of 2001.

24.101 The Department of Justice is responsible for a legal risk management initiative. The objective of its work is to develop a framework for managing litigation that will minimize overall costs to the government. From the fall of 2000 to 2003 the Department is designing and implementing a framework and identifying the need for further work.

24.102 These initiatives will help upgrade policies on risk identification and management in the government. However, we believe that without a major effort to improve surveillance systems and obtain baseline data, the initiatives will not be successful. The development of more reliable and comprehensive databases on the prevalence of health and safety risks will require substantial human and financial resources. To this end, the Privy Council Office, the Treasury Board and the regulatory authorities could jointly

identify necessary improvements and resources.

24.103 As part of the effort to enhance the capability of regulatory authorities to identify and manage risks, we believe that there now is a need for providing organizational stability and rebuilding programs based on risk assessments. In recent years some major health and safety regulatory programs have seen their funding reduced. They also have undergone major reorganizations to improve their effectiveness. In many instances, these changes have been accompanied by loss of expertise due to downsizing. Further, health and safety regulatory authorities face a major loss of staff in the near future, and they may have great difficulty in competing with the private sector for new expertise.

24.104 The federal government should ensure that regulatory authorities have a sound capability to identify risks to health and safety, in particular effective surveillance systems, databases and risk assessment methodologies.

24.105 The federal government should strengthen health and safety regulatory programs by basing the allocation of funding and staffing on risk assessments.

24.106 The federal government should take major steps to help regulatory authorities manage the difficult human resource issues that they face.

Safeguarding the credibility of science in government

24.107 The public's confidence in government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises. The continued lack of sound impact assessments of proposed and existing regulations also undermines the credibility of government science. Without credible science, health and safety regulatory programs can be challenged as untrustworthy sources of information and subservient to political policy or special interests.

24.108 To enhance the credibility of regulatory efforts, the government has established advisory committees of independent experts to provide advice. For example, the Canadian Biotechnology Advisory Committee advises ministers on the ethical, social, economic, regulatory, environmental and health aspects of biotechnology and examines the potential benefits and risks of emerging biotechnology. It also raises public awareness and engages Canadians in discussions on biotechnology. In establishing the committee, the government pointed out that "advisory committees are increasingly the way of the future in biotechnology, and Canada joins forward-thinking countries such as the [United States, the United Kingdom] and the European Union, in adopting this approach."

24.109 These committees help to enhance the credibility of science in government (see our October 2000 Report, Chapter 12). They could also be used to advise parliamentarians, ministers and departments on identifying priorities and objectives for risk reduction, developing or improving risk assessment methodologies, assessing the effectiveness of regulatory programs, and other matters.

24.110 The credibility of science in government has also been damaged because the government has not established effective recourses for scientists to voice concerns in good faith. These recourses are needed when a scientist believes that regular departmental mechanisms are insufficient and that the public's health and safety is at risk. In September 2000 the Federal Court, referencing a Supreme Court decision, decided that public servants can publicly express concerns when the government is engaged in illegal acts or if government policies jeopardize the life, health or safety of the public. The court raised

The public's confidence in government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises.

two caveats: the criticism should not have an impact on a public servant's ability to perform effectively, and other avenues of redress have to be exhausted.

24.111 We believe that public servants should not be put in the position where they believe that their only recourse is to express their concerns publicly. Matters of ethical concern need to be effectively and honestly addressed in an organization. But to do so, the avenues must be clear, effective and trustworthy. We suggested in our October 2000 Report, Chapter 12, that the government establish recourse mechanisms to allow for public servants to intervene in good faith. We believe that such mechanisms will enhance the credibility of health and safety regulatory programs.

24.112 To enhance the scientific independence and credibility of health and safety regulatory programs, the regulatory authorities should expand the use of independent expert scientific advisory committees.

24.113 The federal government should revise the requirements of its regulatory policy to incorporate the best practices of using these committees.

24.114 The federal government should establish standards for conducting risk analysis, particularly for measuring and comparing risks.

24.115 The federal government should ensure that regulatory impact assessments are conducted objectively, using the best available procedures.

24.116 The federal government should establish avenues for recourse to allow employees of federal health and safety regulatory authorities to voice concerns in good faith about risks to health and safety.

Increasing public dialogue

24.117 The government cannot eliminate risks entirely. In some areas, individuals may choose to expose themselves to risks and, government intervention to protect them may be unwanted or may violate their legal rights. Nonetheless, public concern for health and safety risks plays a major role in regulatory decisions. Crises or regulatory failures heighten these concerns.

24.118 It is important to recognize that the concern of citizens and experts for risks may differ. In general, expert assessment of risks is based on several, often unstated, assumptions that include the following:

- public policy focusses on reducing risks to an acceptable level;
- statistics on the level of death and injury may be used to define acceptable levels of risk; and
- public policy focusses on the allocation of scarce resources to save the most lives and avert the most injuries, starting with the most serious.

24.119 In contrast, public concern for risks usually involve assessments that use more personal factors. The focus is on the actual or potential death or injury of family and friends, not statistics. The public asks whether the death or injury was preventable, and if so, why did the responsible authority, often the government, not take the necessary preventive action.

24.120 The increasing adoption of the precautionary principle reflects public pressure on the government to prevent, eliminate or reduce risks, even though scientific evidence may be incomplete and major costs may be incurred.

24.121 Because of the potential differences between public and expert assessments of risks and the growing use of the precautionary principle, the government needs to clearly explain its regulatory policies to Canadians. In recognition of the need to be more transparent and to involve Canadians in

government decision making, the Privy Council Office and the Treasury Board Secretariat are preparing a new policy on consultation and citizen engagement. Solving health and safety regulatory problems requires more citizen engagement.

24.122 To help Canadians make choices, the government needs to give them general information on the nature of risks, its definition of risk management, the way it is applying the precautionary principle, and how it is maintaining the credibility of science-based regulation. The government also needs to explain that focussing on one set of risks may involve the diversion of financial and expert resources from other regulatory tasks perceived as equally important.

24.123 For specific risks, the government will need to focus on "risk communication" — providing information, particularly when there is an imminent risk to health and safety, on the scientific data available, the potential for injury or loss of life and the costs and benefits of government intervention.

24.124 For example, it is envisioned that the Canadian Biotechnology Advisory Committee will publish documents on specific topics of interest, particularly in newly developing areas, to give Canadians factual, balanced information. As well, the committee will be expected to ask Canadians for their views on specific issues during public consultations.

24.125 The government may also have to address increasing demands for consultation on approvals for individual products, rather than consultation only on regulations that apply to a group of products. Meeting the demands for such consultation will require difficult trade-offs between ensuring health and safety and slowing down the regulatory process.

24.126 The federal government should effectively consult Canadians and provide them with information on what is involved in reducing health and safety risks and what the government means by risk management and the precautionary principle.

Increasing accountability for interdepartmental co-operation

24.127 The 1995 Report of the Clerk of the Privy Council to the Prime Minister on the Public Service of Canada recommends more effective ways to manage working relationships between departments.

24.128 The report noted that the public service must develop ways to better address horizontal, cross-cutting issues, including implementing the right system of incentives and accountability — one of the major challenges. Finding ways to effectively address horizontal issues is a difficult task. The report observed that public service practice in this area has not lived up to the concepts of interdepartmental collaboration that are professed, and a better job must be done.

24.129 We have described an accountability framework for partners that work to meet common objectives (see our Commissioner's 2000 Report, Chapters 5 to 8, Partnerships for Sustainable Development). The framework includes credible reporting, effective accountability mechanisms, transparent processes and protection of the public interest. We have noted that productive working relationships are not easily developed or maintained. They require special effort by all parties.

24.130 Increasingly, it is being recognized that unilateral action of one department cannot solve many major regulatory problems in health and safety. Departments share responsibilities for many regulations. The achievement of one entity's objectives depends on the co-operation of others. For example, the Biotechnology Ministerial Co-ordinating

Increasingly, it is being recognized that unilateral action of one department cannot solve many major regulatory problems in health and safety.

Committee addresses issues that cut across the mandates of seven federal ministers.

24.131 The responsibilities of ministers and their departments are stated in legislation. However, there is also a responsibility to serve the broader public interest. As the 1996 Report of the Task Force on Managing Horizontal Policy Issues concludes, "it is these collective responsibilities, which transcend individual mandates, that challenge ministers and their departments to look beyond their narrow interests and to recognize the interdependence of many policy issues."

24.132 The task force recognized that a significant cultural shift would be needed to manage issues where the achievement of objectives depends on interdepartmental co-operation. In the report, it indicated that this undertaking "requires a long-term commitment and consistent actions supporting co-operation, collegiality, and collaboration within and across government. If priority files are managed horizontally, there will be a shift in the Public Service culture towards horizontal approaches. If they are not, real and lasting change is unlikely."

24.133 To encourage this cultural shift, the task force recommended the following:

- senior management and central agencies need to ensure that support for interdepartmental collaboration and teamwork is consistently part of their communications and is reinforced in planning and decision making;
- performance contracts and appraisals of executives and policy staff need to include a section on teamwork and the promotion of team-based approaches as an ongoing priority; and
- an aptitude for and experience in collaborative policy development need to be recognized as an important criterion for promotion and recruitment, particularly at senior levels.

24.134 Many major objectives of health and safety regulatory authorities can only be achieved with interdepartmental co-operation and action. Therefore, we believe that these authorities are good candidates for implementing the recommendations of the task force and for developing the right system of incentives and accountability called for by the Clerk of the Privy Council.

24.135 The government could begin by identifying objectives that require significant co-operation among departments to be achieved. A significant part of appraising the officials of these regulatory programs could include whether or not they have reached these joint objectives. As well, the government could annually report on the overall effectiveness of regulatory programs.

24.136 The federal government should identify major health and safety objectives that, to be achieved, require significant interdepartmental co-operation and ensure accountability for achieving them.

24.137 The federal government should submit an annual report to Parliament on the overall effectiveness of health and safety regulatory programs and the extent to which they have the necessary financial and human resources. This report should include an assessment by lead regulatory authorities on the achievement of objectives that require significant interdepartmental co-operation.

24.138 The performance of senior managers of each contributing regulatory authority should be assessed based on the extent to which joint objectives are achieved.

Encouraging federal-provincial co-operation

24.139 Under the Constitution and in practice the federal government often shares responsibility for the protection of health and safety with the provinces. The

problems in achieving co-operation and accountability at this level are well known. It is for the most part a political challenge.

24.140 However, co-operation is fast becoming mandatory, rather than a matter of choice. Increasingly, risks are of a global nature and multinational action is required. Standards and regulatory approaches among countries are being harmonized through trade treaties or international agreements. This trend means that Canadian regulatory authorities need to co-operate to effectively present a Canadian position in international exercises for setting standards. For these reasons, it is in the interest of all parties to work together and to participate in the development of collaborative arrangements on national health and safety issues. The trend also means that the process of risk identification, cost-benefit analysis and impact assessment has to begin well before international standard setting exercises if Canadian representatives are to be provided with the best objective information. It is also important that departmental experts be present at these exercises.

24.141 The federal government should develop collaborative arrangements with the provinces and territories to reduce risks to the health and safety of Canadians and assess the achievement of joint objectives. The arrangements should also allow for the effective development of a Canadian position in international work-sharing and standard-setting exercises.

Conclusion

24.142 Health and safety regulatory programs are encountering major challenges. They have undergone major reorganizations, funding reductions that have been partly reinstated, and they face major problems in retaining and recruiting needed expertise. They also operate in an environment of increasing legal liability, greater reliance on third parties to set regulatory standards and a growing need to ensure that Canada's approach to regulation is consistent with international trends.

24.143 At the same time, the credibility of regulation based on science is being questioned because of recent major regulatory failures and may be in increasing conflict with the growing application of the precautionary principle.

24.144 In this environment, we are concerned about our recurring findings that health and safety regulatory programs are encountering major difficulties in meeting the expectations of the government's regulatory policy. To meet these expectations action is required government-wide as well as by regulatory authorities. This chapter focussed on the need for government-wide action.

Major improvements in the structure and implementation of health and safety programs are needed government-wide.

24.145 The government needs to explain how it is balancing the objective of protecting the health and safety of Canadians with other social, economic and trade objectives. Major improvements in the structure and implementation of health and safety programs are needed government-wide. For example, the government needs to identify and manage risks to health and safety, ensure that sufficient expertise is available, provide sound assessments of the impact of proposed major and existing regulatory actions, promote joint accountability for significant objectives that require interdepartmental co-operation, and report on the effectiveness of the programs.

Privy Council Office's response: *Protecting the health and safety of Canadians is a core responsibility of the government. This responsibility is exercised through statutes adopted by Parliament which state the government's obligations, objectives and standards in this regard.*

The government adopted the regulatory policy to support ministers and Cabinet in making informed decisions on the development and implementation of regulations which are in the best interests of Canadians. The principles and requirements stated in the regulatory policy have been applied by the government, subsequently endorsed by the Organization for Economic Co-operation and Development, and followed by other jurisdictions in formalizing their own regulatory governance regimes.

While it believes the regulatory policy is sound, the government shares the Auditor General's concern and has recognized the need to ensure that regulatory authorities have the capacity to meet the expectations of the policy — to properly develop and to appropriately implement regulations and regulatory programs. As evidenced in this audit, the government already has identified many of the issues raised and undertaken significant good work to address these shared concerns. In particular, the government is committed to strengthening risk management, monitoring and reporting on the effectiveness of federal regulatory programs, and ensuring the continued integrity of our health and safety programs.

The government is pleased with the recognition by the Auditor General of the good practices which exist within departments and agencies. The government will build on this work by continuing to identify and disseminate best practices in such areas as managing risks; using advisory committees and a range of public policy instruments; measuring outcomes; and communicating and consulting with Canadians.

Clear and appropriate lines of accountability exist for reporting through Parliament to Canadians on the effectiveness of federal health and safety programs. Each minister is accountable to Canadians, through Parliament, for the effective and efficient operations of his or her portfolio, and each minister reports to Parliament on their department's or agency's plans, priorities and performance.

Through the Speech from the Throne and federal budgets, the government has articulated a comprehensive set of policies and measures aimed at "building a higher quality of life for all Canadians". Well-designed and well-managed regulations are in everyone's interests, and can contribute to this goal. For this reason, the Government of Canada is constantly seeking ways to improve the effectiveness and efficiency of its regulations and regulatory programs and welcomes this contribution of the Auditor General.

About the Audit

Objectives

We undertook this audit to identify trends in approaches to health and safety regulatory programs and the challenges they face. We also wanted to assess the pattern of findings of current and previous audits of how well the government has been implementing health and safety regulatory programs. Our third objective was to make recommendations that would strengthen the broad structure and implementation of the programs.

Scope

Our findings are based on the results of our current audits of food inspection programs, nuclear power plant regulation, the regulatory regime for biologics of Health Canada, and follow-up audits of animal health and plant protection, safety regulation for the air navigation system of Transport Canada, and onshore pipeline regulation. They are also based on audit findings from previous Reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. As well, we have taken into account the findings of parliamentary committees, government reports and reports of non-government organizations.

Criteria

We used key elements of the government's regulatory policy and the regulatory process management standards to organize patterns of findings on how well the government is developing and implementing health and safety regulatory programs. We looked at the following issues: risk identification and management, consultation and co-ordination, adherence to the government's standards, human resource management, cost recovery, enforcement and compliance, and reporting on effectiveness.

Based on the government's policies, we expected the government and lead health and safety regulatory authorities to ensure that they do the following:

- reliably identify, manage and communicate risks;
- sufficiently consult Canadians and stakeholders and co-ordinate their efforts with other departments;
- adhere to the government's regulatory process management standards;
- obtain sufficient human resources;
- reasonably implement the government's cost-recovery policy;
- enforce regulations; and
- reliably report to Parliament on the effectiveness of regulatory programs.

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Appendix A

Government of Canada Regulatory Policy, November 1999

Policy objective

To ensure that use of the government's regulatory powers results in the greatest net benefit to Canadian society.

Policy statement

Canadians view health, safety, the quality of the environment, and economic and social well-being as important concerns. The government's regulatory activity in these areas is part of its responsibility to serve the public interest.

Ensuring that the public's money is spent wisely is also in the public interest. The government will weigh the benefits of alternatives to regulation, and of alternative regulations, against their cost, and focus resources where they can do the most good.

To these ends, the federal government is committed to working in partnership with industry, labour, interest groups, professional organizations, other governments and interested individuals.

Application

This policy applies to federal regulatory authorities.

Policy requirements

When regulating, regulatory authorities must ensure the following:

- Canadians are consulted and have an opportunity to participate in developing or modifying regulations and regulatory programs.
- Authorities can demonstrate that a problem or risk exists, federal government intervention is justified and regulation is the best alternative.
- The benefits outweigh the costs to Canadians, their governments and businesses. In particular, when managing risks on behalf of Canadians, regulatory authorities must ensure that the limited resources available to government are used where they do the most good.
- Adverse impacts on the capacity of the economy to generate wealth and employment are minimized and no unnecessary regulatory burden is imposed. In particular, regulatory authorities must ensure that information and administrative requirements are limited to what is absolutely necessary and that they impose the least possible cost; the special circumstances of small businesses are addressed; and parties proposing equivalent means to conform to regulatory requirements are given positive consideration.
- International and intergovernmental agreements are respected, and full advantage is taken of opportunities for co-ordination with other governments and agencies.
- Systems are in place to manage regulatory resources effectively. In particular, regulatory authorities must ensure the following:
  - the regulatory process management standards are followed;
  - compliance and enforcement policies are articulated, as appropriate; and
  - resources have been approved and are adequate to discharge enforcement responsibilities effectively and to ensure compliance where the regulation binds the government.
- Other directives from Cabinet concerning policy and law making are followed such as the Cabinet Directive on Law-Making and the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals and the Cost Recovery and Charging Policy.

Appendix B

Federal Regulatory Process Management Standards: Compliance Guide

1. Finding evidence of a problem

1.1 Policies, procedures and practices are in place to ensure detection of actual or potential problems.

1.2 All problems detected are properly defined and described.

1.3 Problems are analyzed to fully understand their nature and implications.

1.4 The absolute and relative health, safety and environmental risks associated with potential problems are assessed and compared, and risk management principles are used to set priorities for regulatory changes.

1.5 Interested parties are consulted on the nature of the problems and on potential solutions.

1.6 Consultation is proportional to the degree of risk and public acceptance associated with the regulatory actions proposed.

1.7 Documentation is concise and affected parties can understand it easily.

1.8 Government intervention is justified as a result of problem identification and definition, analysis and consultation.

2. Identifying and reviewing alternative solutions

2.1 The analyses of alternative solutions show that new regulatory requirements, be they new regulations or changes to existing ones, will help solve the problems.

2.2 Regulatory solutions based on performance requirements are considered as alternatives to prescriptive standards.

2.3 When possible, positive consideration is given to proposals for achieving regulatory objectives by equivalent means. When such proposals are not accepted, the reasons are fully documented and are explained to the proposer.

3. Analyzing benefits, costs and regulatory burden

3.1 Benefit-cost analyses are carried out on possible solutions to identified problems. The analytical effort is proportional to the related risks being addressed.

3.2a The benefit-cost analysis considers both direct and indirect benefits and costs, and considers impacts on the environment, government, business, workers, consumers and other sectors of society. The total gross costs of regulatory proposals are estimated.

3.2b The impacts of potential solutions on sustainable development are assessed and recommended solutions balance environmental, economic and societal goals.

3.3 Regulatory proposals are brought forward when benefits clearly outweigh costs. When this is not the case, a full explanation and justification is given for exceptions.

3.4 For regulations addressing health, social, economic or environmental risks, the relative net benefits of actions are considered. [Regulations] with the greatest net benefit are the regulatory proposals brought forward first. When this is not the case, a full explanation and justification is given for exceptions.

3.5 Analyses are undertaken on the burden [that] alternative regulatory proposals impose.

3.6 The specific effects of regulatory burden on small business are considered, and their particular circumstances and business practices are taken into account.

3.7 The [business impact test] or equivalent is used to analyze and compare the anticipated impacts of major, alternative regulatory solutions on business.

3.8 Recommended solutions minimize the regulatory burden and impose the least costly information and administrative burden on those regulated.

3.9 There is a verification system to ensure that all feasible alternatives to regulations are fully considered; that full consideration is given to equivalent means of achieving regulatory objectives and to performance-based options; and that the regulatory burden is kept to a minimum.

4. Identifying opportunities for intergovernmental co-ordination

4.1 Effective relationships are maintained with provincial and foreign regulators and procedures are in place to obtain information from them, as necessary.

4.2a The regulatory environment of the problem area is understood; particularly, [it is known] what regulations exist, which levels of government are involved and who the responsible regulatory authorities are.

4.2b Regulatory solutions are developed with the existing regulatory environment in mind and are co-ordinated with existing regulatory requirements to maximize efficiencies and to avoid overlap and duplication.

4.3 Recognized Canadian and international standards are referenced in regulations when appropriate, rather than [supplemented with] a new, duplicate set of standards.

4.4 Interdepartmental and intergovernmental agreements clearly define the roles and responsibilities of each party, the objectives of the regulatory program, enforcement policies, and mechanisms to promote inter agency co-ordination.

4.5 Regulatory personnel is familiar and up-to-date with international and federal-provincial trade agreements and respects their obligations. [It] understands and respects other pertinent agreements.

5. Implementing the best alternative

5.1 Regulatory programs have specific and clearly documented objectives and goals.

5.2 Compliance policies support the implementation of the regulatory objectives and goals.

5.3 The compliance aspects of major regulatory proposals are designed to minimize the liability of the government.

5.4 Those whose actions are subject to regulations are identified and informed of their responsibilities.

5.5 Compliance objectives are clearly defined and appropriately reflected in operational plans and budgets. Plans and performance expectations are communicated to all enforcement personnel. Fair redress mechanisms exist. Regulatees and products from different jurisdictions are treated equally.

5.6 Regulatory programs have procedures for controlling program delivery.

5.7 Complaint management systems with fair redress mechanisms are in place as appropriate.

6. Communicating effectively

6.1 Consultation documents and information about the regulatory proposals are clear and all those who may be affected can understand them easily.

6.2a All those potentially affected by a regulatory proposal are given adequate notice of it.

6.2b Regulated parties and others affected by regulations are given adequate information so that they can fully understand the regulations, the regulatory programs and any associated material of direct relevance.

6.3a Information about regulations and proposed changes to regulations appears in the types of media that groups affected by the regulation most often use.

6.3b The regulatory authority is proactive in reaching its clients and explores new and emerging ways of communicating.

6.4 Managers verify that regulatory information is clear and accessible to interested parties.

7. [Preparing a] regulatory impact analysis statement (RIAS)

7.1a RIASs are prepared when regulations are to be written or amended as part of the recommended solution to a problem [or as the whole solution].

7.1b RIASs are concise, clear and complete. They include information on the problem, the rationale for a regulatory solution, the recommended solution, alternatives that have been considered, the consultation process, and the compliance and enforcement mechanisms to be used.

8. Consulting stakeholders

8.1a There are procedures in place for developing and maintaining appropriate relationships with target populations, professional bodies and industry associations to ensure effective and efficient discussion and resolution of issues.

8.1b There are documented procedures for carrying out consultations, including how consultees are to be identified, contacted and encouraged to participate.

8.2 Interested parties are given clear notification of consultation activities in sufficient time for them to prepare and deliver their input. For complex regulations, consultations start as soon as a potential problem is identified.

8.3 Defining the exact nature of the problem is part of the consultation agenda. Consultations cover alternative regulatory and non-regulatory solutions and the final solution.

8.4 Consultation effort is in proportion to the importance and impact of proposed regulatory changes.

8.5 Consultations clearly identify who should be consulted and what methods should be used to consult with different interest groups. All major interested parties are invited to participate in consultations.

8.6 Alternative consultation methods are used when appropriate, especially if proposed by the people [being] consulted.

8.7 [A business] impact test or equivalent is used [for consultations] on major regulations.

8.8 [Consulted parties] are approached more than once, as necessary, when situations change, when new issues arise or when consultations are out of date.

8.9 All input to consultations is considered and the reasons for not incorporating major suggestions are documented. Feedback is provided to those who contribute to the consultation process on how their ideas are used.

8.10 There is an awareness of the consultation efforts of all levels of government in the areas that are addressed by the regulatory authority, and consultations are co-ordinated when appropriate.

9. Documenting the process

9.1 The departmental regulatory process is documented and includes objectives, responsibilities, authorities and review requirements.

9.2a There are procedure manuals for the regulatory process management system.

9.2b There are procedure manuals for all but the most insignificant regulatory programs.

9.2c Procedures are kept up-to-date.

9.3 Decisions are clearly documented throughout the process, and an appropriate level of management approves and verifies documents.

9.4 The process for each regulatory initiative is adequately documented. Reasons for not following the [federal] regulatory policy are documented whenever that occurs.

10. Continuous improvement

10.1 Internal management reviews of the regulatory process are conducted on a regular basis.

10.2 Regulatory program designs are periodically reviewed, and improvements are made as a result.

10.3 There is a system for verifying that managers address problems identified in reviews or by clients.

10.4 There is a system for verifying that staff is suitably trained in regulatory development skills and [that] training is provided when appropriate.

10.5 There are procedures for training staff to ensure that sufficient and properly qualified personnel is available.

Chapter 25

Canadian Food Inspection Agency

Food Inspection Programs

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	25-5
Introduction	25-7
History of the Canadian Food Inspection Agency	25-7
Shared responsibility for food safety	25-7
Food inspection programs	25-9
The external environment	25-9
The internal environment	25-10
Focus of the audit	25-10
Observations and Recommendations	25-11
The Agency's Initiatives to Achieve Its Mandate	25-11
Integrated Inspection System	25-13
The system has encountered setbacks	25-13
Risk-Based Resourcing	25-14
Attempts at risk-based resourcing across programs have been unsuccessful	25-15
Programs may not be appropriately resourced based on risks	25-16
The Agency took action to manage resource variances	25-16
Guidance is needed to assist operational decisions	25-17
Management of Imported Commodities	25-18
The Agency needs a strategic approach to manage imported commodities	25-18
Current legislation is limiting	25-18
Non-Federally Registered Sector	25-19
The Agency has recognized a need to change the focus in managing the sector	25-20
Assessment of overall risks is needed	25-21
The focus has changed without broad consultation on inspection options	25-21
Approach Based on Hazard Analysis and Critical Control Points	25-23
The Agency has developed and implemented HACCP-based programs for most industries	25-24
A formal strategy is needed for the implementation of the HACCP-based approach	25-27
A further redesigned program for beef and pork could take many years	25-28
There is no pathogen-reduction effort for the Canadian market	25-29
Management of Compliance Activities	25-30
Problems exist in compliance activities	25-31
More attention to managing compliance activities is needed	25-32
Management of Human Resources	25-33
The Agency has made progress in human resource management	25-33
The Agency needs to better understand future human resource requirements	25-33
Key Information for Making Management Decisions and Measuring Success	25-34
The Agency has many types of information	25-35
Better information could be used in many ways	25-35
The Agency must work with its partners	25-36

Page

Communication With Stakeholders 25-36
The Agency's corporate business plan and annual report fall short of expectations 25-37
The Agency has undertaken a number of initiatives to improve communication 25-38
The approach to communication with stakeholders needs to be improved 25-39

Corporate Capacity 25-40
The Agency's corporate capacity continues to develop 25-40

Conclusion 25-40

About the Audit 25-42

Exhibits

25.1 Food Commodities and Their Applicable Federal Legislation for Food Safety 25-8
25.2 Contributing to a National Food Inspection System 25-9
25.3 Development of the Canada Food Safety and Inspection Act 25-11
25.4 Improvement of the Agency's Enforcement Actions 25-12
25.5 The Agency's Consolidation of Its Laboratories 25-12
25.6 Bacon-Wrapped Scallops — Integrating Programs Across Commodities 25-13
25.7 Agency-Wide Risk-Based Resourcing Project 25-15
25.8 Federal Registration Is Not Influenced by Risk to Food Safety 25-20
25.9 Approach Based on the Principles of Hazard Analysis and Critical Control Points (HACCP) 25-25
25.10 Re-engineering the Quality Management Program 25-27
25.11 Number of Establishments With Recognized HACCP Plans Under the FSEP, as of July 2000 25-28
25.12 Compliance and Enforcement Options, Depending on the Legislation 25-31
25.13 Examples of Persistent Problems Noted by Agency Inspectors 25-32
25.14 Collecting and Analyzing Information on Food-Borne Illness: The U.S. Experience 25-35
25.15 Extent of Stakeholder Consultation in the Agency's Key Management Decisions 25-38

Canadian Food Inspection Agency

Food Inspection Programs

Main Points

25.1 The Agency's food inspection programs are reviewed and generally well regarded by most foreign countries that import our products. This feedback provides a degree of assurance that the Agency's food inspection programs are contributing to the safety of the Canadian food supply.

25.2 Since its creation in April 1997, the Agency has undertaken a number of initiatives to improve the efficiency and effectiveness of federal food inspection — a major reason for its creation. These initiatives include the development of an Integrated Inspection System (IIS) to promote greater consistency between inspection programs; and the introduction of an approach based on the principles of hazard analysis and critical control points (HACCP). The HACCP-based approach is a tool to improve the safety of food through the assessment of hazards and the establishment of control systems that focus on prevention, rather than mainly the reliance on end-product testing.

25.3 While progress has been varied and in a few cases faltered, the Agency has made progress in many of the initiatives. We noted that the Agency has had difficulty in establishing a process to support risk-based resourcing. As a result, the Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risk. Such a process is needed particularly in the imported food sector, which is worth $15 billion and is growing, and the non-federally registered sector, which represents almost one-half of the food-processing industry. We also noted in the non-federally registered sector that the Agency has changed its inspection approach without adequately assessing overall risks and the options available for managing the sector. Also of concern is the lack of a formal strategy for the implementation of the HACCP-based approach and the setbacks encountered in the IIS.

25.4 We identified problems with the Agency's compliance activities. We examined 21 inspection files from establishments that had issued food recalls or had been prosecuted in the last two years. In 1999–2000, the Agency participated in 243 recalls and had 59 successful prosecutions. We found that in 16 cases, the same or similar problem persisted for many months and in some cases, years. The compliance actions taken were not sufficient to achieve the Agency's goal of timely correction of the compliance problem either because of the limitations in the legislation or a failure by the inspector to take more serious compliance action.

25.5 Measuring the success of initiatives and more broadly the performance of the Agency in achieving its goals is also a concern. We noted that the Agency had not set expectations or measured performance to determine if its initiatives and activities have contributed to a more efficient and effective food inspection system. Our annual assessment of the performance information in the Agency's annual report has consistently noted that readers are not provided with the information necessary to understand the extent to which the Agency is achieving its objectives.

Background and other observations

25.6 The Canadian Food Inspection Agency is the result of the amalgamation of food safety and inspection programs from three federal departments: Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. It now has some 4,400 employees across the country and manages expenditures of $416 million. The Agency's main activities focus on inspecting the food supply, but it also conducts activities related to animal health and plant protection.

25.7 The Agency is not solely responsible for food safety. It shares this responsibility with other federal departments and provincial, territorial and municipal authorities. Industry and consumers also play an important role. Health Canada is responsible for establishing policies and standards relating to the safety and nutritional quality of food. The Agency is responsible for delivering federal inspection programs that enforce these policies and standards.

25.8 The Agency operates in a complex environment created by a number of factors, including changes in food risks, technology, inspection methodology, international requirements, consumer trends and consumer perception.

25.9 Our audit focussed on assessing how the Agency manages food inspection to reduce risks to food safety.

25.10 We found that a formal strategy for the implementation of the HACCP-based approach is needed. A plan for the transition period, including considering how to manage resources during the transition period needs to be developed. Further, insufficient information has been collected to allow the Agency to measure the success of implementing the HACCP-based approach in improving food safety. It could take many years to develop and implement the further redesign of the HACCP-based approach in the meat industry. This redesign would require industry to perform ante- and post-mortem detection with continuous government monitoring and oversight in the beef and pork industries. It could also take a long time to introduce a pathogen-reduction effort in these industries. This situation is in contrast with the important progress made in the poultry industry.

25.11 The Agency is lacking important information on the incidence of food-borne illness in humans and the prevalence of pathogens in the food supply. This is complicated by the fact that the Agency is not responsible for gathering some of the information. However, without this information, it is more difficult to manage risks to food safety and measure the success of Agency initiatives and its contribution to the safety of the food supply.

25.12 The Agency has consulted the provinces, industry and the public on some, but not all, significant initiatives and issues. As a result, the Agency has missed opportunities for broad public debate on important questions, including the following: How much inspection attention should be paid to the non-federally registered sector given its mandate? Should the Agency continue to provide industry with considerable flexibility in implementing the HACCP-based approach? Should it be leading internationally in implementing the further redesign of the HACCP-based approach in the meat industry? It is important that the Agency engage stakeholders, including Parliamentarians and the public, in a debate on these questions.

The Canadian Food Inspection Agency's responses to our recommendations are included in the chapter. The Agency accepts all but one of our recommendations and has indicated a number of actions it is taking or intends to take to address them. The Agency disagrees with our recommendation relating to the non-federally registered sector. Its position is reflected in its response following paragraph 25.82.

Introduction

25.13 Responsibility for safe food lies with all those involved in food, from production through to consumption:

- farmers must produce safe food, and fishers must catch and handle fish safely;
- food processors, wholesalers and distributors must comply with established standards;
- all levels of government must verify compliance with these standards; and
- consumers must handle food properly.

History of the Canadian Food Inspection Agency

25.14 The Canadian Food Inspection Agency (CFIA) was created in 1997 by combining the food safety and inspection programs of three federal departments: Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. This move was an attempt to facilitate a more uniform and consistent approach to safety and quality standards and risk-based inspection.

25.15 The Agency's creation resulted from a long history of identifying reasons to reform the food inspection system. Between 1970 and 1985 four key reports mentioned the need for a single agency to provide better co-ordinated food inspection. In 1986 the Interdepartmental Committee on Food Regulation (ICFR) was established in response to the 1985 report of the Task Force on Program Review (Nielson Report). In our 1994 Report, Chapter 13, Federal Management of the Food Safety System, we concluded that long-standing problems with the food inspection system still existed and that the mandate of the ICFR remained unfulfilled. The 1995 federal Budget highlighted the need to improve the effectiveness and efficiency of the federal component of the Canadian food inspection system, including possible changes to the organizational structure. The Office of Food Inspection Systems (OFIS) was established in May 1995 to review organizational options and consult stakeholders. The Canadian Food Inspection Agency began operation on 1 April 1997.

Shared responsibility for food safety

25.16 At the federal level, responsibility for food safety is shared between the Minister of Agriculture and Agri-Food, through the Agency, and the Minister of Health, through Health Canada. The Agency's primary role in food safety is to conduct all federal food inspection activities. It also has other responsibilities for animal health and plant protection.

25.17 The Minister of Health establishes policies and standards for the safety and nutritional quality of food sold in Canada. These policies and standards are based in part on the risk assessments, food safety research and disease surveillance by Health Canada. The Department also assesses the effectiveness of the Agency's food inspection activities.

25.18 The Agency regulates the food industry through two types of food safety legislation. All food produced in Canada or imported is covered by the *Food and Drugs Act*, which derives its authority from powers of federal criminal law. This Act prohibits the manufacture or sale of all dangerous and adulterated food products anywhere in Canada. There are a number of commodities (dairy, shell and processed egg, fresh and processed fruits and vegetables, honey, maple syrup, beef, pork, poultry and fish) that are also covered by other Acts. These Acts derive their authority from powers of federal trade and commerce. Canadian establishments that process and distribute these commodities inter-provincially/territorially or internationally must register with the Agency in order to operate. As such, the establishments that trade in these

The Canadian Food Inspection Agency's mandate is "to enhance the effectiveness and efficiency of federal inspection and related services for food and animal and plant health."

commodities are referred to as "federally registered establishments." In addition to product inspection, importers or foreign processing establishments of these commodities may be subject to enhanced import controls, such as foreign country assessment, inspection of foreign establishments, audit of importer quality systems and importer licensing. All other food establishments are referred to as "non-federally registered establishments." Exhibit 25.1 presents the relationship between the two groups of food commodities and the two types of federal food safety legislation. The Agency is also responsible for the administration and enforcement of the *Consumer Packaging and Labelling Act,* which applies to selected food products that are sold or advertised for sale in Canada or imported into the country.

25.19 The Agency's mandate is "to enhance the effectiveness and efficiency of federal inspection and related services for food and animal and plant health." Its mission is "safe food, market access and consumer protection." The objectives stated in the corporate business plan are to contribute to a safe food supply and accurate product information; to contribute to the continuing health of animals and plants for protection of the resource base; and to facilitate trade in food, animals, plants and their products.

25.20 Food safety also involves provincial, territorial and municipal authorities. Under their public health and trade mandates, the provinces' and territories' jurisdiction extends to all food manufactured, traded and sold within their borders. The provincial governments not only regulate retail and food services, such as restaurants, but may also regulate requirements for all food premises, including federally registered establishments. For example, most

Exhibit 25.1

Food Commodities and Their Applicable Federal Legislation for Food Safety

	Dairy, shell and processed egg, fresh and processed fruits and vegetables, honey, maple syrup, beef, pork, poultry, fish		**All other foods**		
Percentage of grocery dollars spent by consumers on these commodities	56%		44%		
	Domestically produced: traded inter-provincially/ territorially or internationally	Imported	Domestically produced: sold within a province or territory	Domestically produced: traded inter-provincially/ territorially, internationally or sold within a province or territory	Imported
	Federal registration required or enhanced import controls		**Federal registration NOT required**		
Applicable criminal legislation: i.e., *Food and Drugs Act*	✓	✓	✓	✓	✓
Applicable trade and commerce legislation: i.e., *Canada Agricultural Products Act, Meat Inspection Act, Fish Inspection Act*	✓	✓	N/A	N/A	N/A

Source: CFIA's documents and other sources

provinces regulate the construction and basic sanitary requirements of certain establishments within their borders. In some provinces, municipal governments also enforce regulations.

25.21 Because of this shared responsibility, mechanisms are needed to ensure effective and well-coordinated partnerships with a clear understanding of responsibilities and activities. To do so, the Agency and its partners participate in a number of co-operative committees. For example, the Agency is a member of the Canadian Food Inspection System Implementation Group. The Group is an interdepartmental/intergovernmental committee established to advance a fully integrated inspection system. The Agency is also involved in the work of the Federal/Provincial/Territorial Agri-Food Inspection Committee, which discusses science issues, concerns about technical trade barriers, and agri-food inspection policies and programs. Exhibit 25.2 summarizes other valuable work by the Agency to help improve the co-ordination of food inspection activities across Canada.

Food inspection programs

25.22 Food inspection programs verify, through inspection or audit, that food products for domestic and foreign consumption meet Canadian or foreign standards for safety, quality, handling, identity, processing and labelling. This function is primarily carried out in two ways: through the registration and inspection of establishments for inter-provincial and international trade; and through the inspection and grade monitoring of products in registered and non-registered processing establishments, at importers' premises and in retail establishments. The inspection of quantity, quality and labelling protects consumers from economic fraud. Industry compliance inspection involves a visit to an establishment and, following detailed inspection policies and procedures, verification that an establishment is operating in accordance with government regulations. The evolution of new inspection methodologies is changing the approach to inspection. There is an increased focus on government audit of industry activities with the support of compliance and enforcement tools. The Agency also participates in emergency food recalls and investigates food-borne illnesses. These activities help to ensure that Canadian food exports can access international markets.

25.23 For 1999–2000, the Agency reported that its total annual costs were $416 million, $54 million of which was recovered through user fees. Of this total amount, $279 million were for food safety and $137 million were for animal health and plant protection. It now has some 4,400 employees across Canada.

The external environment

25.24 Many factors affect the safety of the food we eat. These factors influence the means that the Agency and industry use to help ensure the wholesomeness and safety of food. They also create challenges for the Agency in carrying out its mandate.

25.25 One factor over the last many years has been the changing hazards in our food. When the *Meat Inspection Act* was passed in 1907, diseases that could be transmitted from animals to humans were of primary concern. In the 1980s chemical

Exhibit 25.2

Contributing to a National Food Inspection System

The Agency, as part of the Canadian Food Inspection System Implementation Group, is participating in the development of harmonized model regulations and codes for a number of industries. These regulations and codes provide a set of standards that serve as guides for each jurisdiction, federal, provincial and territorial, in developing their own laws and codes of practice. Codes and regulations for the dairy industry and retail and food service industry have been approved and regulations and codes for the meat and poultry, horticulture and bottled water industries are being developed.

contamination was the main concern. Measures were taken to control it, and residue testing became a routine part of food inspection. The significant hazard that emerged in the 1990s was microbial contamination, which can cause immediate and acute illness. Controlling such contamination can be done with such means as clean water, public sanitation, disease surveillance and food control. Other new hazards which have raised concern in recent years include antibiotic-resistant bacteria, food allergens and diseases such as bovine spongiform encephalopathy (BSE or "mad cow disease").

25.26 To deal with new hazards, new technology and control measures must be developed. At the same time, new inspection methods must be developed. The adoption of food-processing systems based on the principles of hazard analysis and critical control points (HACCP) has resulted in changes to the inspection methodology of food processors that have implemented this system.

25.27 Another factor that has affected food safety over the years has been the change in international trade requirements, which influence the activities of industry and the Agency. As a member of the World Trade Organization, Canada has an obligation to harmonize its food safety measures with international standards, guidelines and recommendations adopted by the Codex Alimentarius Commission, a joint commission of the United Nation's Food and Agriculture Organization and World Health Organization. The Commission is generally recognized as the authority on international food safety standards. Additional international obligations exist under the Agreement on the Application of Sanitary and Phytosanitary Measures and Technical Barriers to Trade. As well, Canada has entered into a number of equivalency agreements with other countries. These agreements recognize that Canada's food inspection system meets the required level of protection of our trading partners and that their system meets Canada's level.

25.28 Finally, changes in consumer trends and consumer perception have influenced the Agency's activities. Today Canadians are consuming a greater variety of foods. There has been substantial growth in domestic food processing, food exports, and food imports. Eating patterns are changing, with more food dollars being spent on foods prepared outside the home, either in restaurants or processing facilities. Consumers are more aware of the hazards that exist in food and have certain expectations of government and industry to protect them from these hazards.

The internal environment

25.29 When it was created, the Agency inherited 12 pieces of legislation, 46 sets of regulations, some 4,500 full-time equivalents and 27 bargaining units as well as different methodologies, styles and corporate cultures.

25.30 Creating the Agency was seen as a means to give it greater autonomy in providing more responsive and more cost-effective services. The government expected that the Agency would reduce, avoid and recover costs. It cut the Agency's budget by $33 million over the first three years, which has had an impact on the way the Agency has carried out its inspection activities.

Focus of the audit

25.31 We undertook this audit to do the following:

- to assess whether the inspection regimes have been satisfactorily designed, structured, organized and implemented to achieve their safety and other objectives;
- to identify factors and constraints that affect the development or implementation of the inspection regimes; and

- to determine whether the Agency is proceeding adequately with initiatives to improve its management of risks to food safety relative to its mandate for food inspection.

25.32 To assess how the Agency manages risk, we examined a number of its strategic initiatives to manage risks. We focussed on the initiatives that we felt were the most significant:

- the Integrated Inspection System
- risk-based resourcing
- imported commodities
- non-federally registered establishments
- the implementation of the HACCP-based approach
- compliance and enforcement activities
- human resource management.

In addition, we also assessed the following factors, which can influence the success of these initiatives:

- information for management decisions and performance measurement
- risk communication framework
- corporate capacity.

25.33 Further information on our audit scope, criteria and approach can be found at the end of the chapter in the section **About the Audit**.

Observations and Recommendations

The Agency's Initiatives to Achieve Its Mandate

25.34 After the creation of the Agency in 1997, the Minister of Agriculture and Agri-Food presented to Parliament the Agency's first corporate business plan for 1997-2000. The plan identified a number of strategic initiatives that the Agency intended to undertake to achieve its mandate of enhancing the effectiveness and efficiency of federal inspection and related services for food. The Agency has carried out other initiatives, not mentioned in its business plan, to achieve its mandate. In doing so, the Agency has created expectations for improvements.

25.35 It was intended that the Agency would evolve in three phases. The first phase would involve the amalgamation of the food safety and inspection programs of Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. This phase is complete. The second phase would see the modernization of food safety legislation. The Agency drafted the *Canada Food Safety and Inspection Act* to do so (see Exhibit 25.3), and work is ongoing to revise the proposed Act. The third phase would involve program and regulatory redesign. The Agency has significantly redesigned some programs, but further redesign remains outstanding because it depends on a change in legislation.

25.36 The Agency has made good progress in some areas. For example, it has done the following:

- achieved its targets for resource savings;
- progressed on the federal/provincial negotiations under the Canadian Food

The Agency's corporate business plan identified a number of strategic initiatives that the Agency intended to undertake to achieve its mandate.

The Agency and Health Canada established the Task Force on Legislation. The task force reviewed the Agency's legislation and developed a strategy and action plan for modernizing and consolidating the legislation. The result of extensive consultation and this review was the first reading in the House of Commons of Bill C-80, the *Canada Food Safety and Inspection Act*. The Bill proposed an Act designed to establish a more consistent approach to licensing, import controls, offences, enforcement powers and penalties. At the time of our audit, work was ongoing to revise the first reading of the Bill.

Exhibit 25.3

Development of the *Canada Food Safety and Inspection Act*

Source: CFIA's Performance Report, for the period ending 31 March 1999

Inspection System Implementation Group (see Exhibit 25.2);

- drafted federal legislation in the form of the *Canada Food Safety and Inspection Act* (see Exhibit 25.3);
- created the Office of Food Safety Recall to address some of the problems that the Agency had experienced when participating in food recalls;
- improved its procedures on enforcement action, that is, in situations when legal action is taken (Exhibit 25.4);
- consolidated its laboratory services (see Exhibit 25.5); and
- continued to deliver food inspection programs that are well regarded by foreign countries and to manage some 1,500 international agreements and protocols dealing with market access and export certification arrangements.

25.37 Here is a brief introduction of these initiatives, which we discuss in detail later in the chapter:

- **Integrated Inspection System (IIS).** The Agency's business plan and the Canadian Food Inspection System Implementation Group identified the IIS as key to bringing consistency to the many different approaches to food inspection that existed before the creation of the Agency. This initiative affects all food inspection programs.
- **Risk-based resourcing.** Identifying and assessing risks to food safety and economic risks and allocating resources based on the relative risks have been goals of the Agency and its predecessors for many years. This initiative would allow the Agency to demonstrate that it has appropriately resourced its food inspection programs based on the relative risks. This initiative affects all food inspection programs.
- **Imported commodities.** The value of food imports has increased over 60 percent between 1992 and 1998. This growing sector requires a different management approach than the sector that produces food domestically. Developing a consistent approach would help to ensure that the management of imported commodities is appropriate based on risks.
- **Food inspection programs for establishments in the non-federally registered sector.** The sector represents almost half of the food-processing industry in Canada. These establishments are generally subject to a much less rigorous federal inspection regime than food processors in the federally registered sector. Assessing the overall risks to food safety in the non-federally registered sector is important for determining the appropriate level of effort based on risks.
- **Implementation of the HACCP-based approach in the**

Exhibit 25.4

Improvement of the Agency's Enforcement Actions

We found that the Agency has taken important steps to improve the quality and consistency of its enforcement (i.e., legal) actions. The Agency is providing enforcement training to all inspection staff. The training includes guidance on factors to consider when recommending prosecution, involving local enforcement and investigation services, and using a standardized inspection form that captures all the required information when prosecution is likely. While the Agency still depends on inspectors and supervisors to recommend prosecution, recent training programs appear to be well designed to help ensure consistency in their decisions.

Source: CFIA's documents and other sources

Exhibit 25.5

The Agency's Consolidation of Its Laboratories

In 1999–2000 the Agency consolidated all 22 of its laboratories into a single reporting structure. The laboratories are grouped into four areas (Atlantic, Quebec, Ontario and West), with each area reporting to a senior area laboratory network director.

One of the Agency's goals is to have its laboratories accredited to international standards. All of the laboratories have either achieved accreditation by the Standards Council of Canada to ISO/IEC Guide 25 (General Requirements for the Competence of Calibration and Testing Laboratories), submitted an application for accreditation, or are preparing to do so.

Source: CFIA's Annual Report, 1999–2000

federally registered sector. This initiative has significantly changed the processing and inspection methodology. Many of Canada's trading partners are also implementing this approach. HACCP-based systems are generally accepted worldwide as a means to improve the safety of food. HACCP-based inspection programs are expected to allow for better allocation of inspection resources to those areas that present the greatest risk.

- **Improvement of compliance and enforcement actions.** The Agency uses these actions to secure correction of non-compliance problems identified at establishments during inspection. This initiative affects all food inspection programs and helps to ensure appropriate and consistent action.

- **Human resource management.** The Agency has freedoms in managing its human resources, which are not usually available to departments. An understanding of what the Agency needs in a future work force could help it in preparing to deliver its mandate into the future.

25.38 We have identified three factors that we believe influence the success of these initiatives:

- **Information** is important to making management decisions and measuring performance. It can assist in understanding risks, designing food inspection programs to manage these risks and measuring the success of these programs.

- A **risk communication framework** helps an organization to operate transparently and responsibly, which is key to engaging stakeholders in important management decisions. Communication with stakeholders through the corporate business plan, the annual report and consultation provides a means for considering stakeholder concerns and expectations in management decisions.

- **Corporate capacity** is important to the orderly operation of an organization. While corporate capacity is always evolving, there are basic elements that must be in place to assist in orderly operation.

25.39 We expected that the Agency would proceed adequately on implementing these important strategic initiatives and would identify how they have contributed to the effective and efficient delivery of food inspection activities. We found that progress on implementation has been varied.

Integrated Inspection System

The system has encountered setbacks

25.40 The Agency made a commitment to an Integrated Inspection System to improve the efficiency and effectiveness of food inspection activities by integrating them into two dimensions. First, it would integrate inspection activities across all food inspection programs to have a more uniform approach, that is, to treat similar risks to food safety in a similar manner regardless of which food inspection program they relate to (see Exhibit 25.6). Second, it would develop an integrated

Exhibit 25.6

Bacon-Wrapped Scallops — Integrating Programs Across Commodities

The case of the fish processor that wanted to produce bacon-wrapped scallops highlights the problem of having food regulations with different standards for different commodities. In this case, requirements for meat are different and generally more stringent than for fish:

- non-impervious walls are required in a meat-processing establishment, but are not required under fish-processing regulations;
- painted plywood is not allowed under the meat-processing regulations, but it is acceptable under fish-processing regulations;
- bacon must be processed in a refrigerated environment that is not higher than 10°C, a requirement that does not exist under fish-processing regulations.

IIS principles incorporating uniformity of both inspection and safety standards across commodities will provide solutions for similar cases.

Source: Internal memorandum of the CFIA

"production to consumption" approach to food safety with producers, processors, provinces and consumers. This project has received support from industry, which generally considers the IIS as a positive initiative.

25.41 We expected that the Agency would proceed with the implementation of the IIS. We found that it has experienced some difficulty in advancing this initiative, although the Agency has recently taken action to make progress.

We found that the Agency has experienced some difficulty in advancing the initiative of the Integrated Inspection System.

25.42 In the first phase of the project, completed in the fall of 1998, the Agency established a model and reference standard for an IIS and produced a report that benchmarked existing Agency food inspection programs. In the second phase, it needed to further develop the IIS model by conducting pilot projects and consulting its staff, industry and the provinces. In the two years since the completion of the first phase, the project has encountered a number of setbacks, including changes in staff and problems communicating IIS-related concepts internally. As a result of these and other problems, the Agency has reconsidered the scope and direction of the project. We understand that the Agency will now focus on some smaller scale projects, such as integrating its various import programs and supporting the Canadian Food Safety Adaptation Program to develop strategies and systems that manage food safety from production to consumption.

25.43 The Agency's business plan identifies the IIS as a key initiative. In fact, the Canadian Food Inspection System Implementation Group recommended it in its Report to Ministers. As such, it is important that the Agency continue to focus on its goals of greater integration.

25.44 The Canadian Food Inspection Agency should revitalize and complete the development of the Integrated Inspection System.

Agency's response: *The CFIA agrees with this recommendation and has taken action to further enhance the efficiency and effectiveness of its food inspection system within legislative boundaries.*

The initiative has refocussed on integration of inspection approaches in the area of import control systems and consistency of audit and verification protocols related to science-based inspection procedures.

Risk-Based Resourcing

25.45 The Agency considers risks to food safety to be a critical element in risk management decisions. Risk to food safety is determined by the probability that a hazard to food safety will have an adverse effect and by the magnitude of that effect. Hazards to food safety include microbial pathogens (like salmonella), chemical residues (such as pesticides) or foreign materials (like glass). But there are other risks that influence risk management decisions at the Agency. For instance, economic risk comes from a number of sources including international requirements, which if not met, could mean the loss of a market. For example, in various programs, the Agency must provide inspection activities for trade in addition to inspection activities for food safety, in order to meet the import trade requirements of other countries.

25.46 Factors that influence risk management decisions include the public's perception of hazards to food and its expectations of what government will do to protect them from these hazards. This situation is especially difficult when public perception differs from the scientific evidence or the scientific evidence is limited. Technical feasibility, economic cost and preferences of society must also be taken into consideration.

25.47 The concept of risk and relative risk is a difficult and complex subject, and risk analysis is still evolving in Canada and at the international level. To be

credible, risk analysis must be supported by a rigorous and systematic scientific approach.

25.48 Designing and resourcing food inspection programs based on the relative risks to food safety and the relative economic risk has been a goal of the Agency and its predecessors for many years. It requires that risks be identified and assessed based on relative risks, which means that risks across programs that are of equal severity receive a similar degree of attention and reflect an appropriate level of protection. Based on this analysis, the existing program design can be assessed to ensure that the program appropriately deals with the risks, and the appropriate level of resources needed to deliver the program can be determined. If excess resources are identified in certain programs, the Agency could reallocate them to programs that are under-resourced. If there is a shortage, the Agency would need to devise a plan for obtaining appropriate resources for its programs. This analysis makes it possible to demonstrate whether the level of effort in managing risks is appropriate, whether the level of resources is appropriate and whether all risks are being managed, as required.

25.49 We expected that the Agency would be able to demonstrate that it has appropriately resourced its programs based on risks, especially the risk to food safety and the economic risk. We found that it could demonstrate in some programs that existing resources had been allocated within the program based on risks. However, it has been difficult for the Agency to devise a process that supports risk-based resourcing across programs. As a result, the Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risks.

Attempts at risk-based resourcing across programs have been unsuccessful

25.50 In our 1988 Report, Chapter 8, Agriculture Canada — Food Production and Inspection Branch, we recommended that food inspection resources be aligned on the basis of risk. We repeated this message in our 1994 Report, Chapter 13, Federal Management of the Food Safety System. Over the years, there has been some progress, particularly in allocating resources within certain food inspection programs. Identification and assessment of hazards in specific commodities, such as E.coli O157:H7 in unpasteurized juice, has also improved.

25.51 The Agency has made various attempts to establish a process that supports risk-based resourcing across all food inspection programs. The Agency-Wide Risk-Based Resourcing Project was one such attempt (see Exhibit 25.7). However, differences between food inspection programs, limited information and few common bases for comparing risks has made this a difficult task for the Agency. Applying this

The Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risks.

Exhibit 25.7

Agency-Wide Risk-Based Resourcing Project

One of the more ambitious attempts to improve priority setting was the Agency-Wide Risk-Based Resourcing Project. The Agency's senior management acknowledged the following:

> The project to target resources to areas of highest risk within the Agency is supported by program Directors as one of the most important new initiatives of the CFIA. When completed, it is anticipated that there will be greater consistency and a more level playing field across programs. The project will also provide an opportunity for stakeholder participation and hence a transparent and public accountability that is appropriate in determining what the public considers acceptable risk. This will also meet our commitment to the OAG and our responsibility to Parliament and the Canadian people.

Within months of this statement, the project had ended because of competing demands and a lack of resources.

Source: Internal memorandum of the CFIA

exercise to its programs for food inspection, animal health and plant protection complicated the situation. Further, the Agency has not been able to find an appropriate model used by another food inspection entity that would serve as an example for the Agency.

Programs may not be appropriately resourced based on risks

25.52 We did not complete a resource review to determine if the Agency's food inspection programs were excessively or insufficiently resourced based on relative risks. However, we did note situations that raise questions about whether resources are appropriate based on relative risks.

25.53 One area concerns the inspection of imported commodities. Several of the Agency's internal reviews have identified the need for a more consistent, risk-based allocation of resources across these commodities. To illustrate, the Agency allocates 20 direct inspection staff positions to each of the meat import program and the import program for non-federally registered commodities that are covered by the *Food and Drugs Act*, even though the risks to food safety in both programs are not equal. Using risk categories devised by Health Canada before the creation of the Agency, raw meat imports are deemed low risk, while commodities covered by the *Food and Drugs Act* vary in risk from high to low. Because imported meat is regulated under trade and commerce legislation, it tends to be inspected at relatively few locations. Imported commodities regulated under the *Food and Drugs Act* generally cannot be inspected at entry, requiring inspectors to visit the importer's premises, of which the Agency estimates there are 3,450. Agency officials informed us that the meat import program is designed to manage trade concerns as well as food safety concerns, while the import program for commodities covered by the *Food and Drugs Act* is designed to manage only food safety concerns. However, the Agency has not conducted an analysis to demonstrate the adequacy of resourcing for imported commodities covered by the *Food and Drugs Act*. The need for risk-based resourcing is also demonstrated in the discussion on the non-federally registered sector, presented later in this chapter.

25.54 As well, in our review of the Agency's work planning process, we noted that planned levels of activity are negotiated based on the levels of effort required in the program design and the amount of available resources. We found that because of limited resources, the planned levels of activity were generally less than the levels required to deliver the program as designed. We also found that actual levels of activity performed were lower than those that were planned. This suggests that either the required levels of effort are excessive or the levels of effort actually delivered are inadequate.

The Agency took action to manage resource variances

25.55 Aware of this situation, the Agency conducted an analysis of the variance in its resources, estimating it to be short 500 staff positions across all of the Agency's inspection programs. The Agency informed us that subsequent analysis suggests that the figure of 500 is inflated. The Agency used the analysis to support a request for additional funding from Treasury Board, which it believes will partially address the gaps in program delivery. It has also reduced the required level of effort in some food inspection programs to match the available resources. While these measures have addressed the gaps, we noted that they were not based on a systematic assessment of risks. The Agency has recently begun another, more comprehensive resource review to support a further request for funding from Treasury Board.

25.56 In our view, despite the difficulties in establishing a process to support risk-based resourcing, it is important that the Agency revitalize its

efforts to do so. This exercise would allow the Agency to demonstrate to Parliament that it has appropriately determined the resources it needs and the extent to which its programs are appropriately resourced based on relative risks. Such an exercise is also seen as an important means for the Agency to demonstrate that it has shown due diligence in carrying out its legislative commitments.

Guidance is needed to assist operational decisions

25.57 Staff makes operational decisions on how to manage resources among food inspection programs. We found three different approaches in the Agency:

- reliance on staff experience and knowledge of the industry and establishments and the legislative requirements to make operational decisions on program delivery;

- internal negotiation, such as the annual work planning process in which there is a negotiation of competing commitments and resource allocation;

- a priority analysis framework, such as that used by the scientific risk assessment unit to prioritize competing demands for risk assessments.

25.58 Agency staff told us that further guidance would be helpful when it is deciding how to allocate resources between competing program demands. For example, it would need guidance to determine whether a traditional inspection of a fish importer is of higher priority than a HACCP inspection of a fish processor. This guidance could be a priority listing or a series of criteria that outline what staff should consider in choosing among competing program demands.

25.59 The Canadian Food Inspection Agency should assess and report the extent to which its food inspection programs are appropriately resourced based on relative risks. Further, the Agency should develop guidelines to assist staff in making operational decisions on competing program demands.

Agency's response: *All the food inspection programs within the CFIA are designed and delivered on a risk-based framework. Risk considerations, with the highest consideration given to food safety risk, underlie all resourcing decisions within each of these programs.*

The CFIA's inspection programs are based on requirements and obligations set out in legislation, regulations, and/or government-to-government agreements. The CFIA, operating within its legislative and regulatory mandate, assigns resources and priorities based on risk within each of its food inspection programs.

However, the concept of relative risks, or the ability to compare different risks across programs, is still evolving at the international level. Although, the CFIA is at the forefront in international discussions on the application of relative risks, there are currently no models in existence which could be adopted by the CFIA. Therefore, to assess whether programs are appropriately resourced, based on relative risk, is extremely difficult and may not be possible for some time.

The CFIA is undertaking a comprehensive resource review in conjunction with the Treasury Board Secretariat. The goal of the review is to ensure that the CFIA's activities, including its food inspection programs, are appropriately resourced. The resource review, which is expected to be completed in April 2001, will assess all CFIA activities and resources and develop a projection of the resource requirements for the next three to five years.

An effective workplanning and quarterly reporting process involving both the program design and delivery staff of the CFIA will provide guidance on operational decisions and enhance reporting.

Management of Imported Commodities

25.60 Canadians are eating more imported food in greater varieties than ever before. In 1998 Canada imported over $15 billion of food, compared with approximately $9 billion in 1992. In particular, more ethnic foods and more varied fruits and vegetables have crossed our borders.

25.61 Managing safety is different for imported commodities than for commodities produced domestically. The federal regulatory authority has less control of food produced outside Canada. Further, managing imported commodities involves dealing with foreign jurisdictions as well as other federal organizations, such as the Canada Customs and Revenue Agency and the Department of Foreign Affairs and International Trade.

Limitations in legislation make it difficult to manage imported commodities.

25.62 We expected that the Agency would develop an overall strategic approach for imported commodities that would allow it to consistently manage the risks to food safety of imported commodities. We found that while the Agency has undertaken several important projects, it does not yet have a strategic approach for managing the sector. In addition, we found that limitations in the current legislation make it difficult for the Agency to manage certain imported commodities.

The Agency needs a strategic approach to manage imported commodities

25.63 Two internal reports have raised concerns about the absence of a strategic approach for imported commodities. Because each imported commodity is included as part of the domestic food inspection program for that commodity, there are inconsistencies in the approach to different imported commodities. The Agency has recently started planning a project on imported commodities as part of the initiative of the Integrated Inspection System. A strategic approach could eliminate some of these inconsistencies.

25.64 Although there is no strategic approach, the Agency has developed a number of tools to manage imported commodities. The Import Services Team develops import control systems and works closely with the Canada Customs and Revenue Agency to co-ordinate import activities. The Agency surveyed importers to better understand the import sector. There are a number of management information systems that allow the Agency to identify, inspect and track imported commodities. The creation of the Import Service Centres, which operate seven days a week and 20 hours a day, streamlined the import process.

Current legislation is limiting

25.65 Imported commodities that are covered under trade and commerce legislation, such as meat or fish, can be stopped at points of entry and inspected. Imported commodities covered by the *Food and Drugs Act* cannot. They are declared at the point of entry, but may only be inspected on the importer's premises, unless they are subject to an import alert or other special control measures. These limitations in the legislation make it difficult to manage imported commodities.

25.66 Agency officials explained that data and information on importers and the products they import collected by the Canada Customs and Revenue Agency, under the *Customs Act,* is not readily accessible to the Agency. For example, the Agency cannot access information about an importer's importing history.

25.67 To deal with these limitations, Bill C–80, the *Canada Food Safety and Inspection Act,* was tabled in the House of Commons. The Bill was proposed for passage by Parliament to allow the following:

- licensing of all food importers;

- inspection of all food products at points of entry;

- designation of specific points of entry for certain commodities;

- enhancement of inspectors' powers; and

- implementation of electronic commerce.

25.68 For imported commodities, the Canadian Food Inspection Agency should develop an overall strategic approach to enhance consistency. Further, the federal government should address limitations in existing legislation.

Agency's response: *The CFIA agrees with this recommendation and has taken action. The CFIA is developing an overall strategic approach to enhance and guide the integration of various import control systems and improve the effectiveness and efficiency of control, monitoring, and enforcement actions.*

In the spring of 1999, the Government of Canada introduced Bill C-80, the Canada Food Safety and Inspection Act. *This bill addresses the limitations in the existing legislation, which were identified by the audit.*

Non-Federally Registered Sector

25.69 The Agency has estimated that the non-federally registered sector includes roughly 5,000 food-processing establishments, which represent about half of the food-processing industry in Canada. This estimate grows to about 100,000 with the inclusion of retailers and restaurants. At the federal level, the main legislative base for managing risks to food safety in this sector is the *Food and Drugs Act*. The Agency is responsible for enforcing all food inspection related sections of the Act, in particular the prohibition against selling unsafe food, unwholesome food, or food that is "manufactured, prepared, preserved, packaged or stored under unsanitary conditions".

25.70 Management of this sector is a challenge due to its size and the variety of commodities it produces (for example, infant formula and cereal, baked goods, beer, soft drinks and candy). Because registration is not provided for under the Act, the Agency cannot be certain that it is aware of all operating establishments and the potential risks. Further, because provinces share responsibility for this sector, the Agency is required to work in partnership with the provinces, each of which has different legislation and funding.

25.71 Risk to the safety of a food commodity does not influence whether establishments that trade inter-provincially/territorially or internationally are federally registered or not. Rather, it is trade and commerce requirements that influence registration. For example, peanut butter, which is not federally registered, was categorized as a high risk (category 1) by Health Canada when the Department was responsible for this sector (i.e., before the creation of the Agency). In contrast, ketchup, which Health Canada considered a low risk (category 3), is federally registered (see Exhibit 25.8). Establishments trading in commodities that are non-federally registered are generally subject to a much less rigorous Agency inspection regime than registered ones. In some cases, however, they may be subject to provincial and territorial inspection.

25.72 We expected that the Agency would assess the risks to food safety that exist in the sector; determine the level of risk that will be managed; determine the resources needed to deliver the program appropriately; consult the provinces, industry and the public; and inform Parliament on the options that existed for changing the focus of its inspection activities. We found that specific risks had been identified and that priorities were set for these risks. Further, we found that the

workplans had been developed so that effort was directed based on these priorities. However, we did not find an overall assessment of risk, a decision on the level of risk to accept, a determination of required resources or sufficient consultation on options.

The Agency has recognized a need to change the focus in managing the sector

25.73 After the amalgamation, the Agency recognized that this program could not be delivered as designed with existing resources. As a result, it undertook an organizational review then a program review to clarify the Agency's mandate for this sector as well as the design and priorities of the program. Based on these reviews, the Agency developed a work plan to use the existing program resources as effectively as possible.

25.74 Following the organizational and program reviews, the Agency created the Bureau for Food Safety and Consumer Protection. The reviews concluded that with existing resources of about 160 positions, the Bureau, through its programs would place priority on activities related to recall investigations and emergency response, and address specific problems in the food industry on a risk priority basis. To deal with specific risk related problems, the Agency will undertake projects that may include inspection, sampling, education and partnerships with industry and provinces. This new approach focusses on identifying specific risks and necessary industry controls to effectively manage the risks, rather than focussing mainly on establishment inspection. For example, the Agency has been working on projects with the sectors of ready-to-eat meat, sprouts, bottled water and unpasteurized juice. This approach means that the Agency will no longer endeavour to undertake regularly scheduled inspections of all non-federally registered establishments covered under the previous program design.

25.75 It is our opinion that while the change in focus may be reasonable, the Agency needs to more comprehensively assess the risks that must be managed, decide on how much risk to accept and determine the resources it needs to deliver an appropriate program based on those risk decisions.

Exhibit 25.8

Federal Registration Is Not Influenced by Risk to Food Safety

Commodity	Risk Level[1] High 1	2	3	Low 4
Registration not required				
• Unpasteurized juice	X			
• Infant formula[2]	X			
• Peanut butter (processed)	X			
• Mineral water		X		
• Chocolate made from cocoa beans		X		
• Coffee				X
Registration required, if traded inter-provincially or internationally				
• Ready-to-eat meat	X			
• Processed eggs	X			
• Ketchup			X	
• Fruit jams and jellies			X	
• Pasteurized juice				X
• Raw meat				X

Notes:

1. Health Canada established the risk levels before the creation of the Agency in 1997.
2. Establishments that produce infant formula are subject to more rigorous requirements than other non-federally registered establishments.

Source: Documents of Health Canada and the CFIA

Assessment of overall risks is needed

25.76 The new approach is intended to focus on identifying and prioritizing risks based on risk assessments by Health Canada, reviews of problems resulting in investigations and recalls, information obtained through international environmental scans and the experience and knowledge of staff. However, it does not include an overall assessment of risks in this sector. An overall assessment would involve gathering information on matters such as the size and distribution of the sector, the hazards in the sector and the controls that industry has developed to manage those risks, among other things. A starting point is the work done by the Agency in the baked goods industry, which will provide important information for assessing the risks to food safety in this industry. The Agency has not undertaken studies for any other non-federally registered industries. Without a more comprehensive knowledge of the risks in these industries, the Agency cannot be sure what impact the change in focus will have on food safety.

25.77 The resources that are allocated to the non-federally registered sector continue to be based on already existing resources of 160 staff positions. This sector represents about half of the food production industry in Canada and is involved in half of the recalls for food produced, yet only some five percent of the Agency's resources are allocated to the sector. Even though the provinces and municipalities are also active in this sector, it is not clear whether federal resources are adequate, based on the risks that this sector may present. Without an overall assessment of risks and decisions on how much risk to accept, the Agency cannot determine the number of resources it needs to adequately deliver its programs. A process to support risk-based resourcing, as discussed previously, would allow the Agency to determine the resources necessary to deliver this program.

The focus has changed without broad consultation on inspection options

25.78 We would have expected the Agency to consider a range of possible options when undertaking a change in the management of this sector. This would involve asking questions such as whether it needs to create a resource intensive inspection regime, at one extreme, or whether it needs to merely respond to consumer complaints, at the other extreme. Further, we would have expected the Agency to consult widely with the provinces, industry, and the public and inform Parliament on the options available.

25.79 The Agency did not examine the full range of options available. In addition to constraints caused by the existing level of resources, the Agency believes that it is constrained from taking a greater role in managing this sector because of the allocation of responsibility between the federal and provincial governments outlined in the Constitution. It believes that the provinces are better positioned to deal with the challenges in this sector because they have greater legislative flexibility under their public health mandates.

25.80 Because the Agency shares the responsibility for this sector with the provinces, it is important that the Agency understand the provinces' activities, what information they hold and their contribution to food safety in the sector. In our 1994 Report we noted that federal officials responsible were "not obtaining complete information from the provinces on the nature, extent, timing and results of food safety inspections they undertake" with the aim to "co-ordinate inspection activities and share information." The Agency has assigned staff to work with provinces; however, sharing of information such as work plans remains limited. In discussions with provincial officials, we were told that the provinces were aware of the Agency's change in focus, but they were not consulted or

Without an overall assessment of risks and decisions on how much risk to accept, the Agency cannot determine the number of resources it needs to adequately deliver its programs.

otherwise involved. According to provincial officials, because the Agency still has not formally articulated its plans for this sector to the provinces, it is difficult for the provinces to plan for the impact that the change will have on their operations.

25.81 The Agency consulted its staff to determine the best way to manage the non-federally registered sector. However, it neither informed nor consulted the public on the change in focus. Parliament also has not been informed of the change, despite the significance of the related safety issues in the sector: the size of the sector, the risks of the sector, resources available for the sector and the fact that provinces also contribute to the management of the sector. We believe that the Agency needs to involve the public, the provinces and Parliament in a thorough examination of how much attention the Agency should give to the sector.

25.82 As part of the current change in focus to managing the non-federally registered sector, the Canadian Food Inspection Agency should assess the risks to food safety in this sector; determine the level of risk to accept; determine the resources needed to manage this sector based on the assessment of the risks; work more closely with the provinces; consult the provinces, industry and the public; and inform Parliament on the options available for managing this sector.

Agency's response: *The CFIA disagrees with the Office of the Auditor General's recommendations for managing CFIA responsibilities in the non-federally registered sector. The CFIA's concern with the analysis and resulting recommendations results from the Office's misunderstanding of two significant issues: the CFIA's mandate in this sector; and, the complexity of risk and the CFIA's role in managing risk.*

Mandate: The CFIA's ability to assume responsibility for the regulation of all food production and related activities in Canada is constrained by existing legislation and the limits of the Constitution of Canada. This position is based on a series of court decisions that have interpreted the division of authorities among the federal and provincial governments.

The Canadian Food Inspection Agency Act *authorizes the Minister of Agriculture and Agri-Food to order a recall of any food product that poses a risk to food safety, regardless of whether it originates from a registered or non-registered establishment. The CFIA takes immediate action in all situations brought to its attention that require a food safety investigation or a product recall. It should be noted, however, that the overwhelming majority of recalls are undertaken voluntarily by industry and that the CFIA monitors the effectiveness of these recalls.*

The CFIA will continue to collaborate with the provinces to provide seamless delivery of food inspection services. The CFIA has working arrangements (MOUs) in place with Health Canada and the provincial and territorial governments to facilitate food inspection activities. These MOUs are being amended and strengthened to increase their scope and to update activities and respective roles.

Risk: Risk is dependent on the probability of an adverse effect and the magnitude of that effect, resulting from food hazard(s). Risk is cumulatively influenced by the effectiveness of controls exercised at all stages of the food chain, including the consumer level. The concept and application of risk analysis continues to evolve internationally and the CFIA is participating in international fora developing this concept.

In the non-federally registered sector, the CFIA has recently implemented a new approach to identify and establish priorities for the management of risk. The CFIA recognizes that the level of risk is

reduced when the industry implements appropriate controls to prevent, eliminate, or reduce hazards to acceptable levels at key segments of the food chain and key stages of processing. The most effective way for the CFIA to have an effect on reducing risks is to work with the industry and other government agencies to identify potential hazards and to implement appropriate controls. To identify potential hazards, the CFIA reviews the risk assessments conducted by Health Canada; the information based on a review of food safety investigations, analytical results, and food recalls; information obtained through international environmental scans; and, the experience and knowledge of its specialists. The CFIA then identifies the current level of control exercised by the industry and the risk management approaches which are expected to have the greatest effect on improving the industry's controls to reduce the level of risk. In determining the most effective risk management approaches, the CFIA considers the role and possible contribution of its partners, such as the provinces, to managing the risk.

The expectation of the Auditor General, to fully assess this sector in terms of potential hazards and levels of controls currently in place, is neither possible nor reasonable. The potential hazards associated with foods sold by this sector include the entire spectrum of microbiological, chemical, and physical hazards. Concepts related to risk analysis and relative risks are still evolving at the international level. As noted in the report, the Food and Drugs Act *applies to all persons who sell or process food. This includes all processing establishments, retail outlets, wholesalers, restaurants, food service outlets, and any other premises selling food of any description. The number of establishments, which is constantly changing, is well in excess of the 100,000 noted in the report. The approach suggested by the Auditor General lacks reasonableness and is far from the most cost-effective approach to reducing levels of risk.*

The CFIA focusses its resources on areas where there is a need for industry to strengthen its controls. The level of CFIA effort is influenced by the degree of control exercised by the industry, the nature and seriousness of the potential hazards, and the efforts taken by provincial and territorial governments. The CFIA agrees that it is important to work in partnership with the provinces and the CFIA's MOUs with Health Canada and most provincial and territorial governments facilitate risk management activities. The CFIA has informed the provinces of the priorities in the non-registered program sector and is planning a greater effort to consult with the provinces and industry, as noted in this report. As noted in the response to recommendation 25.150, the CFIA is working to enhance its consultation and outreach approach to encompass as wide a target audience as possible, including consumers and public health stakeholders.

The CFIA will continue to inform Parliament through the Minister on changes such as these, which enhance the effective and efficient operations of the food inspection programs.

Approach Based on Hazard Analysis and Critical Control Points

25.83 The approach based on the principles of hazard analysis and critical control points (HACCP) for food processing has been designed as a cost-effective alternative to improving food safety. It is rapidly becoming the international standard for trade in value-added products. Implementing HACCP-based systems will likely become essential for food producers and processors to enhance their competitiveness and access in the domestic and global markets. For example, in 1996 the United States began, in stages, to require that meat-slaughter

and meat-processing establishments adopt a HACCP-based system, which affects Canadian establishments exporting to the United States (U.S.). In Canada, a growing number of food retailers will only accept food from suppliers that have a HACCP-based system. As well, the United Nation's Codex Alimentarius Commission strongly recommends the use of HACCP-based systems to improve food safety. As a result, HACCP principles are being applied throughout the food production continuum, including on-farm and at food retailers.

Systems based on the principles of hazard analysis and critical control points (HACCP) are widely believed to have several benefits, such as improving food safety.

25.84 HACCP-based systems are widely believed to have several benefits. They are designed as tools that produce safer food and require industry to take more responsibility for the production of safe food. HACCP-based inspection programs can allow inspectors to focus on those areas that present the greatest risks to food safety and can help to improve efficiency in inspections. They can also allow some resources of the Agency to be allocated to other areas.

25.85 To implement a HACCP-based system, the processor must develop operational plans based on HACCP principles. It must then incorporate these plans into its operations and perform regular monitoring and verification activities to determine whether the plans are functioning adequately. HACCP-based systems are further explained in Exhibit 25.9.

25.86 As the food industry adapts its operations to HACCP-based systems, the government may adapt its approach to food inspection. In a traditional inspection program government inspectors focus on the food-processing establishments, inspecting the processing conditions and the final product before distribution. A HACCP-based inspection program is designed to include two functions. First, a review verifies that the processor's operational plans respect the HACCP principles and meet the minimum requirements of the program. Second, regular audits check the adequacy of the establishment's activities in ensuring compliance with the operational plans. HACCP-based inspection programs are further explained in Exhibit 25.9.

25.87 The Agency has further redesigned the poultry slaughter inspection program for establishments operating under the HACCP-based approach. This program requires industry to perform ante- and post-mortem detection activities. Agency inspectors then provide continuous monitoring and oversight of industry's detection activities. This program also includes a pathogen-reduction effort. The redesign is further explained in Exhibit 25.9.

The Agency has developed and implemented HACCP-based programs for most industries

25.88 Several programs have been developed to adapt the HACCP-based approach to individual industries. In 1989 the government began to develop the Food Safety Enhancement Program (FSEP) for the beef, pork, poultry, dairy, processed fruits and vegetables, egg, honey and maple syrup industries. Participation in the FSEP is voluntary. The first program to incorporate the HACCP-based approach in Canada and the first mandatory program in the world is the Quality Management Program (QMP), which began development in 1989 for the fish-processing industry (see Exhibit 25.10). A further redesign of the HACCP-based approach for the meat industry began in 1996 when the Agency started to develop the Modernized Poultry Inspection Program (MPIP) for the poultry industry.

25.89 We expected that the Agency would have a formal strategy to guide the implementation of the HACCP-based approach. This strategy would consider the time required to implement the approach, assess the impact on resources and determine a way to measure the

Exhibit 25.9

Approach Based on the Principles of Hazard Analysis and Critical Control Points (HACCP)

The key element of a HACCP-based system is its preventative nature and control throughout the manufacturing process at each critical step, called a critical control point (CCP). By identifying CCPs, the processor can easily detect and correct food safety concerns at these points before it processes and packages the product.

A HACCP-based system has seven basic principles:

1. conduct a hazard analysis;
2. determine the CCPs;
3. establish critical limits;
4. establish a system to monitor control of the CCP;
5. establish the corrective action to be taken when monitoring indicates that a particular CCP is not under control;
6. establish procedures for verification to confirm that the HACCP-based system is working effectively; and
7. establish documentation concerning all procedures and records appropriate to these principles and their application.

These principles are also used by Canada's trading partners, such as Australia, New Zealand, the United States and countries of the European Union.

Food Safety Enhancement Program (FSEP): A program for the industries of beef, pork, poultry, processed fruits and vegetables, dairy, egg, honey and maple syrup

To participate in this program, the processor identifies each CCP in an operational plan. These plans are reviewed and, if deemed adequate to control hazards, are recognized by the Agency. Processors must also develop a prerequisite plan to prove that their transportation, storage, sanitation, and other systems meet the Agency's criteria. These plans are also recognized by the Agency.

Once a processor has adopted a HACCP-based system, the Agency can replace traditional inspection with HACCP-based inspection. Under HACCP-based inspection, the Agency will check the adequacy of the controlling and monitoring procedures of the processor and verify the processor's records of the monitoring procedures. End-product testing is completed as necessary. The design of an inspection program determines how often the Agency inspects a processor.

Quality Management Program (QMP): A program for fish processors

Under this program, the processor must develop and implement a QMP plan, which includes an operational plan, a prerequisite plan and a regulatory action plan. The QMP plan outlines control measures that are necessary for the production of safe and wholesome product. The Agency assesses the plan for compliance with the Fish Inspection Regulations.

Regular audits by the Agency are designed to verify that these plans have been implemented as written and that they are effective in maintaining compliance with regulatory requirements.

Modernized Poultry Inspection Program (MPIP): Further program redesign of the HACCP-based approach for the poultry industry

Under current poultry inspection programs, Agency inspectors perform ante- and post-mortem (before and after death) inspection of the animal. Under the MPIP, trained and accredited industry staff conduct post-mortem detection, while Agency inspectors provide continuous monitoring and oversight of industry's activities. It is intended that industry will also perform ante-mortem detection, although the current MPIP pilot establishments do not yet do so. The MPIP also incorporates a pathogen reduction effort.

The MPIP is running as a pilot project. Research and development for the MPIP began in 1996; the pilot began in September 1997. The Agency set a goal of having 20 percent of poultry establishments participating in the MPIP pilot in 1999-2000. Today, participation is 11 percent (seven establishments).

(cont'd)

Exhibit 25.9 (cont'd)

The development of the MPIP has been a significant undertaking for the Agency. In developing the MPIP, the CFIA consulted industry, consumers and the unions representing CFIA employees. Pilot establishments were identified, and prepared to participate in the program. Training programs for staff, accreditation programs for industry detectors and presentation and finished product standards have also been developed. The Agency developed a pathogen reduction program. Flock sheets have been developed that extend the impact of HACCP on the production to consumption continuum. Regulations of the *Meat Inspection Act* are being updated, and equivalency for the inspection program from the United States (U.S.) is pending. The lessons learned in developing the MPIP will be useful to the Agency in developing similar programs for beef and pork.

Ante- and post-mortem inspections

Ante-mortem inspection involves the visual inspection of live animals for evidence of illness. It is effective in identifying conditions that cause abnormal behaviour. Post-mortem inspection involves an examination by sight, touch and smell of a carcass and organs. It is effective in detecting carcasses affected by diseases that are visible to the naked eye or can be detected by smell or touch, such as tuberculosis and cysticercosis. However, fewer animals going to slaughter have these diseases because of healthier livestock. Post-mortem inspection is not effective at detecting food-borne microbial pathogens of public health significance, such as certain strains of E. coli or salmonella. Generally, microbial hazards that cannot be detected through this means are a greater risk to consumers than those that can. Laboratory testing is the most common way to detect these hazards.

Pathogen-reduction effort

A pathogen-reduction effort involves laboratory testing to verify the effectiveness of control measures taken to control microbial hazards. Laboratory testing programs have been developed by the U.S. government in response to concerns raised by the National Academy of Science in the United States that new methods to supplement ante- and post-mortem inspection were needed to better detect microbial hazards. This is one of the reasons why the United States introduced its own Pathogen Reduction Program as part of the introduction of the HACCP-based approach. The U.S. program illustrates some of the important elements of a pathogen-reduction effort.

The U.S. government completed national baseline surveys of the prevalence of food safety hazards for eight categories of slaughtered animals. Using this data, the U.S. Department of Agriculture (USDA) established a salmonella performance standard and required establishments to achieve a prevalence for salmonella contamination that is below the prevalence rates shown in the baseline surveys. Salmonella has been targeted because it is the leading cause of food-borne illness among microbial pathogens, has a known presence on most types of raw meat, and it can be tested in a variety of products.

The USDA is also requiring establishments to test for generic E. coli because it is a good indicator of the adequacy of the establishment's process controls for fecal contamination. The USDA is adopting generic E. coli verification performance criteria based on the results of the baseline survey. The criteria are guidelines, not regulatory standards. The program is designed so that the USDA routinely tests for salmonella and the establishment regularly tests for generic E. coli to ensure that the product does not exceed the standards or guidelines. The routine testing also allows the USDA to measure the success of the implementation of its program. It is considering an expansion of microbial testing to include other pathogens, such as campylobacter.

Source: CFIA's documents and other sources

approach's effectiveness in improving the safety of food. We found that while the Agency continues the implementation of the HACCP-based approach, it does not have a formal strategy for the Food Safety Enhancement Program. We also expected that the Agency would be fully considering the further redesign of the HACCP-based approach and a pathogen-reduction program for the meat sector. We found that it has developed a new program for poultry, but has no formal strategy for the beef and pork industries.

25.90 In the 1997 business plan, the Agency stated that "in consultation with industry, [it] will move toward a staged requirement for [the] HACCP [-based approach] in all federally registered food-processing establishments." The Agency continues to consult industry on the implementation of the approach. As of June 2000, mandatory HACCP-based systems are only required for fish processors (QMP). For all other commodities, implementing HACCP-based systems remains voluntary.

25.91 The Agency has explained that participation in the Food Safety Enhancement Program (FSEP) for the meat industry has remained voluntary in part because of the mandatory requirement for HACCP-based systems in the U.S. Because of this U.S. requirement, many of the large and medium-sized meat establishments in Canada are operating under the HACCP-based approach. With so much of the industry operating under the HACCP-based approach, the Agency decided to allow participation to remain voluntary. The Agency has recently begun consultations with industry to discuss the transition to a mandatory program. The Agency has also confirmed its intention to continue to allow participation in the FSEP for all other commodities (dairy, egg, processed fruits and vegetables, honey and maple syrup) to remain voluntary.

A formal strategy is needed for the implementation of the HACCP-based approach

25.92 Planning for the Food Safety Enhancement Program began in 1989. In 1991 a goal of full implementation of mandatory participation in the FSEP was set for 1996. As a result of many factors, including the creation of the Agency, this goal was not achieved, and a new strategy to guide implementation has not been developed.

25.93 The Agency began to recognize HACCP plans under the FSEP in 1997. As of July 2000 the HACCP plans of 263 establishments had been recognized, 618 have applied for recognition (they have implemented a HACCP plan and are waiting for recognition), and 1,330 had not yet applied for recognition (see Exhibit 25.11). Over the last several years, the Agency has focussed its efforts on recognizing the HACCP plans of those meat establishments that export to the U.S. The Agency and industry were successful in meeting the implementation deadlines established by the U.S. However, at the present rate of recognition of HACCP plans, the transition to the FSEP will likely continue for some time.

25.94 The Agency had no plan for dealing with resource constraints that would be created during the transition period to the FSEP. We noted that the Agency had recognized the HACCP plans of some establishments several years ago, but it has not yet conducted HACCP audits because of a lack of resources. We also noted that some employees who had received HACCP training to recognize an establishment's HACCP plan were concerned that their training would be "stale" by the time they were available to complete audits. In the interim, inspectors continue to perform traditional inspection activities in these establishments, which requires them to be trained in both types of inspection activities.

25.95 The Agency has neither completed an analysis of the resources that could be freed from the implementation of the FSEP nor has it calculated the possible savings from the further redesign of the HACCP-based approach to include the beef and pork industries. It has estimated that about $4 million of resources currently allocated to the poultry program could be reallocated annually to areas of higher risk through the implementation of the MPIP. It also has not formally considered where any saved resources would be reallocated.

25.96 The Agency has not developed a means to measure the success of implementing the HACCP-based approach in order to achieve its goals of improving the efficiency and effectiveness of food inspection programs and improving food safety.

Recently, the Quality Management Program (QMP) was re-engineered for improvement. This exercise incorporated some good planning practices. In particular, an implementation strategy was developed and milestones and deadlines were set. All 985 fish-processing establishments have developed and implemented a QMP plan that incorporates all the principles of HACCP.

Exhibit 25.10

Re-engineering the Quality Management Program

Source: CFIA's documents and other sources

25.97 Based on these observations, we believe that a formal strategy for guiding the implementation of FSEP and the further redesign of the HACCP-based approach is needed.

A further redesigned program for beef and pork could take many years

25.98 Under the regulations of Canada's 1907 *Meat Inspection Act,* and of similar legislation in the U.S., a government inspector must inspect every animal ante- and post-mortem (before and after death). As a result, traditional inspection programs have required an Agency inspector to perform these inspections. Under a further redesign of the HACCP-based approach, it is possible that ante- and post-mortem inspection be considered as a critical control point. As such, the roles of the government inspector and industry would change. Industry would perform ante- and post-mortem detection. The government inspector would then provide continuous monitoring and oversight of industry's activities in these areas. The MPIP is the Agency's only meat program designed to achieve this change in roles. To accommodate the change, the Agency is amending the regulations of the *Meat Inspection Act* so that establishments would not be in violation of the legislation. The U.S. Department of Agriculture has experienced some legal challenges and continues to work on making this change possible in the U.S.

25.99 Given that Canadian producers and processors are major exporters of products to the U.S., this situation has a significant influence on Canadian food inspection programs. Because of this influence and the legal challenges that the U.S. has experienced in making this change possible, the Agency has chosen not to continue to be in the lead internationally in developing programs and preparing industry for this change in roles.

25.100 Many members of the international food safety community believe that there are a number of advantages in requiring industry to perform ante- and post-mortem detection with continuous monitoring and oversight by government officials. For example, because post-mortem inspection is limited in its ability to detect hazards that present the highest risk, the change in roles would allow government inspectors to spend time on those activities that protect against the highest risks. Finally, it allows industry to take greater responsibility for detecting unsafe food.

25.101 The change in roles is a goal for a number of Canada's trading partners, in particular the U.S. and Australia. The U.S. continues to pilot test projects in the poultry and pork industries, and Australia is running a pilot project in the beef industry. These projects are similar to the MPIP.

25.102 The MPIP began four years ago. No programs involving the requirement

Exhibit 25.11

Number of Establishments With Recognized HACCP Plans Under the FSEP, as of July 2000

Commodity	Number of establishments	Applications for HACCP recognition		Number of recognized plans	
Meat	734	486	(66%)	226	(31%)
Dairy	262	57	(22%)	22	(8%)
Egg	358	28	(8%)	7	(2%)
Processed fruits and vegetables	266	41	(15%)	6	(2%)
Honey	87	2	(2%)	1	(1%)
Maple syrup	241	4	(2%)	1	(0.4%)
Total	**1,948**	**618**	**(32%)**	**263**	**(14%)**

Source: CFIA's establishment tracking report

for industry to perform ante- and post-mortem detection in either the beef or pork industries have been initiated, although there has been some initial planning. Given the length of time it has taken to implement the MPIP and the fact that the Agency has not started programs for these other industries, changes could take many years.

There is no pathogen-reduction effort for the Canadian market

25.103 A pathogen-reduction effort involves laboratory testing to verify the effectiveness of the control measures that exist to control microbial hazards. Laboratory testing programs have been developed in the U.S. in response to concerns raised by the U.S. National Academy of Science that new methods be developed to better detect microbial hazards. The effort involves the setting of standards, guidelines or action levels for unacceptable prevalence rates of certain hazards in the food supply based on existing prevalence rates of microbial hazards. These prevalence rates are determined through national baseline surveys. Establishments are required to regularly test samples to monitor the prevalence of microbial hazards in their processing systems and final products. Sample results must be below these standards, guidelines or action levels for the establishment to be able to sell its product. If the standards, guidelines or action levels are exceeded, then the establishment must take action to improve its controls. The government can also use the sample results to measure the success of the implementation of the HACCP-based approach and the pathogen-reduction effort.

25.104 Because of the U.S. requirements, all Canadian meat exporters to the U.S. must meet the U.S. standard for salmonella and the U.S. guideline for generic E. coli. In the event that the standard was not met, the establishment would not be eligible to export but would still be able to produce for the Canadian market because there is no similar pathogen-reduction effort in Canada.

25.105 Canada has not introduced a pathogen-reduction effort as part of the HACCP-based approach (FSEP) for beef, pork or poultry, except for processors involved in the MPIP pilot. The MPIP pathogen-reduction effort, based on the U.S. Pathogen Reduction Program, requires testing for salmonella and generic E. coli. Based on the results of the national baseline survey, interim action levels for these microbial hazards have been set for establishments that participate in the MPIP.

25.106 To introduce a pathogen-reduction effort in Canada, the Agency would need national baseline surveys on the prevalence of pathogens. The Canadian Poultry and Egg Processors Council initiated such a survey for the poultry industry. This survey was completed with the assistance of the Agency, Health Canada and Agriculture and Agri-food Canada. The results of the survey were used to develop the MPIP pathogen-reduction effort. The Canadian Meat Council intends to undertake a national baseline survey for the beef and pork industries, pending the acceptance of a funding request to Agriculture and Agri-Food Canada.

25.107 The decision of whether to embark on initiatives, such as industry involvement in ante- and post-mortem detection and pathogen-reduction efforts, is a matter for the Agency and the government to decide. The Agency has decided to move slowly on these initiatives in the wake of legal challenges in the U.S. Given the issues of food safety and value-for-money, we believe that the Agency needs to involve the public and Parliament in a broad public debate on questions such as the following: Should participation in HACCP-based programs be mandatory? Should Canada be leading internationally in implementing the further redesign of the HACCP-based

Except for processors involved in the pilot of the Modernized Poultry Inspection Program (MPIP), there is no pathogen-reduction effort for the Canadian market.

approach in the meat industry? Should a pathogen-reduction effort be launched for the Canadian market?

25.108 The Canadian Food Inspection Agency should develop a more formal strategy for managing the implementation of the approach based on the principles of hazard analysis and critical control points. Further, the Agency should consider developing programs that require industry to perform ante- and post-mortem detection for the beef and pork industries, should ensure that national baseline surveys are available, and should consider implementing a pathogen-reduction effort for the meat industry.

Agency's response: The CFIA has a formal strategy for managing the implementation of the hazard analysis critical control points (HACCP) based approach. As noted by the Auditor General, the CFIA stated in its 1997 Business Plan that it will move toward a staged requirement for HACCP in all federally registered food processing establishments. This approach is being implemented. As indicated in the audit, all targets and goals for implementing HACCP in the meat and fish sectors were met or surpassed. The CFIA is an international leader in implementing HACCP throughout the entire food chain from "gate to plate". As well, the CFIA enjoys broad consumer and industry support for the pace and direction it has set in implementing HACCP following the staged requirements.

A number of HACCP initiatives are underway in various sectors. The CFIA is developing an approach for the evaluation of these projects and subsequent consultation with stakeholders on implementation decisions.

With respect to beef and pork meat inspection, policy decisions will be made following consultations that will focus on factors such as scientific (food safety), legal, international trade, and human resource implications. Other program changes, including the issues raised by the Auditor General, will evolve following full consultation with all stakeholders.

Management of Compliance Activities

25.109 A primary goal of food inspection programs is to verify that industry complies with the legislation governing the food industry. To assess compliance, Agency inspectors inspect premises and products. They also investigate complaints from industry or the public.

25.110 If inspectors find evidence of non-compliance, they have a number of options available to secure correction of the problem by establishment management (see Exhibit 25.12). The compliance action taken by the inspector depends on several factors, including the nature of non-compliance and the legislation governing the inspection. Inspectors inform establishment management of the non-compliance problems and may set deadlines for their correction. If the problems remain uncorrected, inspectors may take more serious compliance action or recommend enforcement (i.e., legal) action. In cases where serious health and safety hazards are found, inspectors have the authority to take immediate corrective measures by shutting down production, detaining or seizing products or by revoking the establishment's registration or license, until the problems are corrected. It is common for inspectors to work with establishment management to obtain compliance.

25.111 Under current legislation the compliance and enforcement options vary greatly. Some legislation is limiting because it does not provide options to appropriately deal with the range of seriousness of the non-compliance problems. To address these limitations, the proposed *Canada Food Safety and Inspection Act* was designed to enhance

the Agency's ability to develop regulations that would provide options to better deal with the range of seriousness of non-compliance problems. It would also provide more consistency in its compliance options across all food inspection programs.

25.112 Agency policy requires inspectors to take the action that they believe will lead to compliance in the shortest time and that will prevent problems from recurring. This policy is important because in serious cases of non-compliance, failure to take appropriate action could result in the sale of unsafe food. The Agency relies mainly on inspector training and experience, inspection manuals, supervision, and information systems to help ensure that inspectors appropriately manage non-compliance.

25.113 We expected that the Agency would have mechanisms in place to help ensure that the compliance activities of its food inspection programs are delivered appropriately. We found that while these mechanisms exist, the Agency has not taken full advantage of them. Further, in our review of 21 inspection files, we identified a number of cases in which the same or similar non-compliance problems persisted or recurred. Given these problems, we found that the action taken was insufficient to achieve the Agency's goal of timely correction of non-compliance by establishment management either because inspectors did not take more serious action or because the legislation did not provide adequate options for more serious compliance action.

Problems exist in compliance activities

25.114 We reviewed 21 inspection files for establishments that had either recalled food or been prosecuted in the last two years. In 1999–2000 the Agency participated in 243 recalls and was responsible for 59 successful prosecutions. In reviewing these files, we looked at reports on inspections carried out before and after the creation of the Agency. Further, we interviewed the inspectors responsible for 12 of these establishments. Our review found the following:

- In 10 establishments, inspectors either did not verify that establishment management had corrected the problems within the given deadlines or did so on only some occasions. In 11 establishments, inspectors regularly verified that establishment management had corrected the problems within the deadlines given.
- In 16 of the 21 establishments, we noted that the same or similar problems recurred or persisted. In six of these, the inspectors either did not choose or, because of legislative limitations were unable, to take more serious action as a means to secure correction of the problem. In 10 establishments, we found that inspectors had taken some more serious action to secure compliance. This action included increasing inspection frequency, detaining products, issuing warnings to establishment management that prosecution would be recommended, and prosecuting the establishment.
- The significance of these failed compliance actions is demonstrated by the

Exhibit 25.12

Compliance and Enforcement Options, Depending on the Legislation

- Warnings
- Collection of samples
- Downgrading of the establishment's rating
- Demand for notification of imported products
- Seizure of product
- Mandatory recall orders
- Injunctions
- Refusal to issue or renew licences, registrations or permits
- Suspension, revocation or cancellation of licences, registrations or permits
- Shutdown of production
- Enforcement (i.e., prosecution)
- Monetary penalties
- Forfeiture (on conviction)
- Removal of illegal imports
- Arrest

Source: CFIA's Compliance and Enforcement Manual and other sources

In 16 of the 21 establishments we reviewed, we noted that the same or similar problems recurred or persisted for 12 to 28 months.

fact that in the 16 establishments where the same or similar problems continued or recurred, most of these problems persisted for 12 to 28 months. The problems related to prevention of cross contamination, housekeeping, condensation, rust, flaking paint, and product labelling (see Exhibit 25.13). Given the persistence of these problems, we question whether the actions taken were sufficient to secure correction of the problem. These problems also highlight the need for better compliance options under the Agency's legislation.

25.115 Because our sample was limited in size and focussed on high risk establishments, conclusions on all Agency compliance activities can not be drawn from our review. Nevertheless, we are concerned that a high proportion of the reviews identified problems with compliance actions, and, in particular, that the same or similar problems recurred or persisted.

More attention to managing compliance activities is needed

25.116 Program audit is the chief mechanism that the Agency uses to determine whether inspectors are delivering food inspection programs according to the Agency's standards. As such, it is an important means to assess whether they are taking sufficient and appropriate action to obtain compliance.

25.117 Since the amalgamation of the three departments, the Agency has had some difficulty integrating the program audit functions; it harmonized them only in early 1999. To date, the Agency has only conducted three pilot audits, which are not yet complete.

25.118 Audits of the Agency's programs by our international trading partners and Health Canada's assessments also provide information on the results of the Agency's activities. Several of these audits and assessments have been completed since 1997. However, the Agency cannot rely solely on them for information because it does not determine their scope and timing.

25.119 The Agency has taken steps to improve its enforcement (i.e., legal) actions (see Exhibit 25.4).

25.120 The Canadian Food Inspection Agency should identify and adopt

Exhibit 25.13

Examples of Persistent Problems Noted by Agency Inspectors

Prevention of cross contamination

- "Sales personnel were seen frequently moving through the raw product area to reach [the] finished product area to pack and ship their orders. These practices can lead to the contamination of finished ready-to-eat products with micro-organisms from raw [products]."
- "There are no hand washing facilities in [the] cooking and packing areas. Since raw [products] are also handled in these areas, potential exists for contamination of cooked products. These practices can lead to the contamination of finished ready-to-eat products with micro-organisms from raw [products]."

Housekeeping

- "Sanitation of underside of equipment to be properly cleaned on a daily basis."
- "I found your sanitation in the grading room and equipment as totally unacceptable. Your sanitation protocol states that grading room and equipment are washed daily after … [product] grading. Your immediate attention is required to ensure a safe food product."
- "[product] parts [found] on scale."

Condensation

- "Prep[aration] room — product stored under reefer [i.e., refrigeration] deflector [condensation]."
- "New meat storage cooler — condensation around ceiling access."
- "Chopping and stuffing [area] — condensation build-up on reefer units."

Source: CFIA's inspection files

management practices that reasonably assure the achievement of its policy of timely correction of non-compliance with no recurrence. The Agency should develop possible regulatory and legislative options to provide the necessary tools for dealing with non-compliance.

Agency's response: The CFIA has identified the need for improved consistency in compliance strategies and approaches. Compliance strategies and approaches that complement the current enforcement policy are being strengthened. The CFIA is pleased that the Auditor General has recognized the significant steps that the CFIA has taken to improve the quality and consistency of its enforcement actions.

The CFIA will continue to pursue and develop legislative options and recommend their introduction before Parliament.

Management of Human Resources

25.121 Because of its status as an agency, the CFIA has more flexibility than other government departments in human resource management. As a separate employer exempt from the *Public Service Employment Act,* it can develop and apply its own recruitment and staffing policies and practices. The Agency also has the authority to design and implement programs for job evaluations and salary and administration, which are distinct from the public service. However, it must seek approval for its negotiating mandate from the Treasury Board.

25.122 In 1999 the Agency was one of several government organizations that participated in a study by the Committee of Senior Officials. The committee was charged with assessing the regulatory and inspection community in the government, which was identified as being at risk. Among the committee's concerns were the relatively high age profile of some occupational groups and high future attrition rates. The study is discussed in more detail in our report, Chapter 24, Federal Health and Safety Regulatory Programs.

The Agency has made progress in human resource management

25.123 We expected that the Agency would have a plan for the work force it needs in the future. We found that the Agency had made progress in human resource management. Examples include the training program for the implementation of the HACCP-based approach, hiring and promoting in the executive category, consolidating the 27 bargaining units into four, completing negotiations on several union contracts, commencing the review of Primary Product Inspectors and developing a guide to help managers plan for human resources.

The Agency needs to better understand future human resource requirements

25.124 However, there are a number of concerns that could affect the Agency's ability to manage its resources in the future. Analysis of the Agency staff profile indicates an aging work force, particularly in the veterinary science and inspector groups. The Agency estimates that by 2006, 734 indeterminate employees will be eligible to retire, including 33 percent of the veterinary science group and 29 percent of the inspector group. We were told that the Agency has already experienced some difficulty in recruiting for some positions. The Agency needs a plan to deal with these future retirements and departures. Also of concern is that there are no competency profiles for the inspector group to help the Agency hire the right people. The Agency has no national database to track and manage training. Because the Agency has no information

on turnover of HACCP-trained staff, it does not know the extent of loss of staff with this important skill. Adequate training is required to ensure that recruits are prepared for their job. We have determined that it is often difficult for staff working in meat hygiene, the Agency's largest front-line inspection group, to find time for training because of resourcing pressures. Finally, the conflict-of-interest and post-employment code could be strengthened.

25.125 In the Agency's 1998 human resource strategy, it stated that progress in fostering a positive work environment would be measured by performance assessment and employee feedback tools such as surveys and focus groups. Most other organizations in the federal government commonly use these tools. Although the Agency has begun to conduct focus groups with specific groups at their request, it has not measured employees' views on the work environment Agency-wide, despite the commitment to do so.

The Agency has not measured employees' views on the work environment Agency-wide, despite a commitment to do so.

25.126 The Canadian Food Inspection Agency should take additional action to identify what it needs in a future work force and to develop a plan for creating the work force that it needs to deliver its mandate in the future. The Agency should measure employees' views on whether Agency values are fully practiced.

Agency's response: *The CFIA agrees with the recommendation and is committed to implementing its 2000-03 HR Strategy that identifies key challenges and actions.*

The CFIA is now receiving feedback concerning whether its values are fully practised through the HR Planning pilots. It will continue this process over the next three years to support the implementation of the Strategy.

Key Information for Making Management Decisions and Measuring Success

25.127 Responsibility for collecting and analyzing information on food safety is as highly diverse as the responsibility for contributing to safe food. Information is held by individuals, municipalities, industry, provinces and federal organizations. Health Canada does food research, risk assessments and, food-borne illness analysis. The Canada Customs and Revenue Agency tracks declared food imports and Statistics Canada monitors food industry activity and growth. The Agency's role in collecting information is limited; it relies mainly on the information collected by others to carry out its activities. Its managers need to have a good understanding of risks to food safety if they are to make sound risk management decisions. This information also allows the Agency to measure and report the extent to which its management activities and any new initiatives have achieved their objectives.

25.128 Collecting and analyzing information on food safety is made more difficult by the fact that the information is often incomplete. For example, it is estimated that only one to five percent of food-borne illnesses are reported in the U.S. (see Exhibit 25.14). Further, with so many holders of information, any breakdown in the sharing of the information could result in its loss.

25.129 We expected that the Agency would obtain the information it needs, either by establishing its own information systems or by working effectively with its partners, to make effective management decisions and help measure its success in contributing to the safety of the food supply. However, we found that it lacks some of the necessary data.

The Agency has many types of information

25.130 In addition to the experience and knowledge of staff, which routinely forms an important part of decisions, we found many types of information on food safety that are used in the Agency:

- **Incidents.** Managers are well informed of current outbreaks and incidents that might result in recalls.

- **Surveillance and monitoring.** The Agency has a routine sampling program to detect the incidence of chemical residues and microbiological contaminants in foods. However, the value of this information is limited as the information is not sufficiently detailed and there is little analysis of the results to determine overall trends or developments.

- **Risk assessments.** The Agency and Health Canada conduct scientific risk assessments.

25.131 There is important information missing from Health Canada on food-borne illness in humans and the prevalence of pathogens in the food supply has not been determined.

25.132 In Canada, food-borne illnesses are reported to municipal and provincial health departments and to Health Canada through surveillance systems or laboratory-based reporting systems. Officials at the Agency and Health Canada recognize that these systems do not provide appropriate information for the Agency to make the many different management decisions that are necessary. We raised concerns about disease surveillance in our 1999 Report, Chapter 14, National Health Surveillance: Diseases and Injuries.

25.133 Limited work has been done to obtain information on the prevalence of pathogens in the food supply. As noted earlier, a national baseline survey has been completed for the poultry industry. Such a survey may be undertaken for the beef and pork industries. We are not aware of any similar initiatives in other commodity sectors to obtain similar information.

Better information could be used in many ways

25.134 Information on food-borne illnesses in humans is important because it would help the Agency know the extent to which these illnesses are related to its

There is important information missing from Health Canada on food-borne illness in humans, and the prevalence of pathogens in the food supply has not been determined.

Exhibit 25.14

Collecting and Analyzing Information on Food-Borne Illness: The U.S. Experience

In January 1997, following a number of serious outbreaks of food-borne illnesses, the President of the United States announced a plan to strengthen and improve American food safety. One of the initiatives was to improve the information on food-borne illnesses in humans, more specifically to build a national early warning system to detect and respond earlier to outbreaks of food-borne illnesses, and to provide the data needed to prevent future outbreaks. This system would also provide statistics on these illnesses. Another initiative was to improve the information on the prevalence of pathogens in the food supply, namely to increase research to develop new tests to detect food-borne pathogens, to survey the food supply to determine the prevalence rates of pathogens and to assess the risks in the food supply. The result of this political and financial commitment has led to a better understanding of diseases entering the U.S., the way specific government programs are reducing pathogens and the overall scale of food-borne disease in the U.S.

To overcome the difficulties caused by such a large number of unreported cases of food-borne illnesses, U.S. agencies have set up a network of active surveillance sites. The collaborating FoodNet sites have a system to actively identify laboratory-confirmed cases of these illnesses and to perform surveys that more accurately estimate the actual number of people who become sick with diarrhea each year.

The FoodNet project measures the impact of programs aimed at reducing the pathogens in meat and poultry as well as identifying outbreaks that might previously have been undetected or treated as isolated cases

Source: Documents of the U.S. government and other sources

areas of responsibility; more specifically, the Agency would know who is getting sick and why. This information would help the Agency develop plans and approaches to manage those hazards and commodities that are affecting the health of humans and would help it to measure the success of its efforts.

25.135 A national baseline survey provides useful information to understand the prevalence of pathogens in food. In addition, the information can be used to redesign programs, measure the success of a program redesign and set standards of expected performance from industry.

The Agency must work with its partners

25.136 As discussed earlier, collecting and analyzing information on food safety is not the sole responsibility of the Agency. However, the Agency must ensure that it has adequate information to deliver its food safety mandate. While the use of information by partners is often different, the need for it is not. It is important that the partners in food safety work together to collect and analyze the information they need.

25.137 The Agency and Health Canada are already co-operating and making advances with initiatives such as their Food-borne Illness Outbreak Response Protocol. This protocol should allow the two organizations to bring epidemiological and recall information together and should produce a more sensitive and responsive system for dealing with food outbreaks. However, information and analysis is still needed to support policy making, strategic decisions and proper resource decisions.

25.138 The Canadian Food Inspection Agency should work with Health Canada and other organizations to ensure the availability of information needed to manage its food inspection programs and measure the success of its contribution to the safety of the food supply. The Agency should develop better information systems and structures to support management decision making and performance measurement.

Agency's response: *The CFIA will continue to work closely with organizations that provide information relevant to the management of its food inspection programs. As noted by the Auditor General, the CFIA is working with Health Canada on initiatives such as the Food-Borne Illness Outbreak Response Protocol. As well, the CFIA is working in partnership with industry, Health Canada, and Agriculture and Agri-Food Canada to conduct base line surveys in meat slaughter plants. The CFIA currently gathers a variety of information on products and establishments needed to assess industry's compliance with food inspection regulations.*

Health Canada has the mandate to conduct studies to assess the effectiveness of the CFIA's food safety activities. Three assessments have been undertaken during the past year. The CFIA, through ongoing performance reporting, reports on performance measures that focus on the CFIA's contribution to food safety.

As part of the Y2K initiative, the CFIA successfully consolidated over 100 information systems into 17 new and fully integrated systems. Work is ongoing to enhance the functionality of these systems. The new systems, when fully developed, will facilitate in the collation and presentation of information required to support management and performance measurement.

Communication With Stakeholders

25.139 Being a transparent and responsible organization means maintaining an appropriate dialogue with stakeholders to manage expectations. Among the Agency's important stakeholders are staff, industry groups,

public interest groups, the provinces, parliamentarians and the general public. Transparency requires openness with information, consultation and good public reporting. Because the nature of communication will vary depending on the decision, an organization needs an overall risk communication framework. If an organization is not sufficiently transparent and responsible, then accountability is lacking, trust is damaged, and credibility is at risk.

25.140 Risk communication is important for the Agency because it deals with groups and citizens for whom the concept of risk holds different meaning. Staff may be influenced by work experience and job security; industry may be influenced by its markets; and the public may be influenced by its understanding of and expectations for safe food. A risk communication framework would set out the approach to addressing these different groups and to communicating each type of management decision.

25.141 We expected that the Agency would operate in a sufficiently transparent manner. Specifically, we expected that as appropriate, the Agency would inform stakeholders of risks and involve them in finding risk management options, consider their concerns in its risk management decisions and make these decisions openly and transparently. We found that the Agency lacks a risk communication framework, although work has begun on one. Even without the framework, the Agency has undertaken a number of initiatives to improve communication. However, we found instances (discussed below and in the previous sections on the non-federally registered sector and on the HACCP-based approach) in which the Agency did not maintain sufficient dialogue with stakeholders, particularly Parliament and the public.

The Agency's corporate business plan and annual report fall short of expectations

25.142 The *Canadian Food Inspection Agency Act* requires the Agency to produce a corporate business plan and an annual report. These accountability requirements were included in the Act because of the greater financial, human resource and contracting freedoms given to the Agency. These requirements recognize that the Agency must consider stakeholder concerns when it makes key decisions.

25.143 The publication of the corporate business plan gives the Agency an opportunity to present its strategic direction. The Act requires that the plan include objectives, strategies to achieve its objectives, and expected performance against these objectives. The 1997-2000 plan contains no clearly stated, concrete performance expectations, and only limited information on milestones, time frames, expected levels of effort, and measures of goal achievement. In our view, the information in this plan is not adequate to allow Parliament and the public to later judge how well the Agency actually performed.

25.144 The Act also requires that the annual report include an assessment by the Auditor General of the fairness and reliability of the information that it contains. In our latest assessment, we found that the performance information in the annual report does not yet provide readers with the information necessary to understand the extent to which the Agency is achieving its objectives.

25.145 In our annual assessments, we have found that progress toward good performance reporting has been slow, and targets have been repeatedly missed. For example, the Agency made a commitment in its 1997-98 annual report to develop its performance management and reporting system within three years. A year later, the

In our annual assessment of the Agency's Performance Report, we found that progress toward good performance reporting has been slow and targets have been repeatedly missed.

Agency said that it would need at least four to five years. Current internal plans indicate a delay of a further year to complete this project. We did find, however, that the Agency has begun to develop a new performance management framework, which it believes will significantly improve future performance reports. Although this initiative is a move in the right direction, the Agency agrees that much more work needs to be done. In our view, the Agency will require considerable effort to provide the type of performance reporting anticipated in the *Canadian Food Inspection Agency Act.*

25.146 Stakeholder consultation is another means to consider stakeholder concerns in making management decisions. The Agency prides itself on its approach of consulting with industry and other stakeholders to obtain their feedback on and support for its plans. We reviewed a number of key management decisions to assess the extent of consultation with stakeholders, including staff, industry, the provinces and the public (see Exhibit 25.15). Our review indicates that the Agency's approach to consultation is not as extensive as it could be.

The Agency has undertaken a number of initiatives to improve communication

25.147 While the Agency has not consistently used the corporate business plan, the annual report and stakeholder consultation to engage the public and Parliament, it has undertaken a number of initiatives to communicate with the public and consider stakeholder concerns in making management decisions. For example, we noted that the Agency has done the following:

Exhibit 25.15

Extent of Stakeholder Consultation in the Agency's Key Management Decisions

	Has the Agency communicated with			
Management Decisions	**Its staff?**	**Industry?**	**The provinces?**	**The public?**
Legislative and regulatory changes (*Canadian Food Inspection Agency Act*, Bill C-80 - *Canada Food Safety and Inspection Act*, cost recovery)	Yes	Yes	Yes	Yes
1997 corporate business plan	Yes	Yes	Yes	Yes
Integrated Inspection System	Yes	Yes	On some issues	Not since the 1997 corporate business plan
Implementation of the HACCP-based approach	Yes	Yes	Yes	On some issues
Change in focus in non-federally registered sector	Yes	No, but some consultation is planned	No, but some consultation is planned	No
Cross program risk-based resourcing	Yes	Not since the 1997 corporate business plan	Not since the 1997 corporate business plan	Not since the 1997 corporate business plan
Updated corporate business plan	Yes	Limited	Not since the 1997 corporate business plan	Limited

Source: CFIA documents and other sources

- consulted extensively to develop its first corporate business plan;

- has continued to consult extensively in other areas, such as legislative and regulatory change, in accordance with the Treasury Board's Regulatory Policy;

- has continued to improve its Web site;

- developed a Memorandum of Understanding with the Health Policy and Communications Branch of Health Canada to improve delivery of communication services and activities;

- launched the "FightBac" campaign to improve consumer awareness of risks to food safety; and

- drafted a risk analysis framework, in keeping with modern risk communication practices.

The approach to communication with stakeholders needs to be improved

25.148 In our audit, we noted other tendencies that suggest that the Agency could be a more transparent organization, particularly for the public.

- We compared the Web sites of the Agency and Health Canada with those of the U.S. Department of Agriculture and Food and Drug Administration. The U.S. Web sites have more information on risks to food safety, such as risk assessments, compliance actions not involving prosecution, reports on the implementation of the HACCP-based approach and the results of national baseline surveys.

- Key advisory mechanisms draw heavily from industry. Among the members of the Ministerial Advisory Board, there are eight industry representatives, three academics, and one consumer representative. The Agency's "Group of Thirty" key stakeholders includes 30 industry groups, seven academic and professional groups and one consumer group.

- The Agency's new communication strategy envisions only one-way communication with its external stakeholders and does not lay out a framework for two-way dialogue.

- The Agency does not keep executive committee minutes.

- The Agency does not document the advice on scientific issues from the Associate Vice-President, Science Evaluation to the President.

25.149 The safety of food is important to all concerned, from producers to consumers. And the consequences of consuming unsafe food can be significant. Further, many players are responsible for contributing to food safety. For these reasons, it is important that the Agency operate as a more transparent organization by involving all those who have a stake in safe food.

25.150 The Canadian Food Inspection Agency should develop and implement an overall risk communication framework that would engage all stakeholders, as appropriate, in key management decisions. The Agency should establish clear and concrete performance expectations for the corporate business plan and all its initiatives. The Agency should also promptly develop and implement performance reporting systems that will enable it to provide the type of performance information anticipated in the *Canadian Food Inspection Agency Act*.

Agency's response: *The CFIA, as a government agency that manages risks on a day-to-day basis, engages in two-way communication with all its stakeholders. Stakeholder consultations are an integral part of the CFIA's services. The CFIA is preparing to implement a risk communication framework that espouses internationally agreed-upon principles of*

risk communication. By adopting the most current principles of risk communication, the CFIA will enhance its ability to ascertain the most effective and appropriate ways of communicating risk.

We recognize the importance of two-way communication between a wide range of stakeholders. The CFIA engages in two-way communications through its media relations, Web site, and enquiries functions. The CFIA is working to enhance its consultation and outreach approach to encompass as wide a target audience as possible, including consumers and public health stakeholders.

Preliminary performance expectations have been developed and are articulated in the recent business plan update. The CFIA agrees that further work is required in developing performance targets. The ongoing development of the performance management framework will provide the foundation for establishing performance targets.

The CFIA reports performance information according to Treasury Board guidelines in the Annual Report and the Agency Performance Report. An updated Planning, Reporting and Accountability Structure (PRAS), approved by Treasury Board in September 2000, defines the performance reporting framework at the corporate level.

A quarterly review process, designed to strengthen performance reporting, is being piloted in the CFIA. As noted previously, the reporting systems are being further developed and implemented throughout the CFIA.

Corporate Capacity

The Agency's corporate capacity continues to develop

25.151 While we did not audit the overall management capacity of the Agency, we observed a number of areas where the organization is still developing and that have influenced the rate of progress on initiatives. The Agency is aware of these issues and is acting on most of them. For example:

- When it was created, the Agency had to integrate 157 information systems and improve the Year-2000 compliance of its systems. The integration of these systems into 17 Year-2000 compliant systems involved significant effort by the Agency. However, a number of mission critical systems are still not fully operational, including the Multi-Commodity Activities Program, the Laboratory Sample Tracking System and the Import Control System.

- The Agency still needs to develop a corporate strategy for risk management in order to be in compliance with the Treasury Board's policy. This strategy would help the Agency anticipate and cope with risks that affect the achievement of its mission.

- Because of the major reorganization in 1998, there was a loss of continuity in specific management positions, bringing challenges to maintaining corporate memory.

- An internal study identified little confidence in records management.

- The Agency does not routinely include financial analysis in its analysis of initiatives.

Conclusion

25.152 The Agency's food inspection programs are reviewed and generally well regarded by most foreign countries that import our products. This feedback provides a degree of assurance that the Agency's programs are contributing to the safety of the food supply.

25.153 The creation of the Agency and its first corporate business plan set expectations for improvements in food safety. The Agency has undertaken a number of initiatives to achieve its mandate of managing an efficient and

effective food inspection system. We found that progress on these initiatives has been varied, and in some cases, has faltered. Our audit work identifies a number of areas where the Agency needs to address important issues to ensure that its programs are satisfactorily designed, structured, organized and implemented.

25.154 In our review of 21 inspection files, we identified many instances where compliance actions were inadequate to secure the timely correction of compliance problems because of limitations in legislation or insufficient action by inspectors. While conclusions on the compliance activities in general cannot be drawn from this sample, we are concerned that a number of the problems had remained uncorrected for many months and in some cases, years.

25.155 Measuring the success of initiatives, and more broadly, the performance of the Agency in achieving its goals is also a concern. The Agency has not set expectations and has only developed limited performance measures to determine whether its initiatives and activities have contributed to a more efficient and effective food inspection system. Our annual assessment of the performance information in the Agency's annual report has consistently noted that readers are not provided with the information necessary to understand the extent to which the Agency is achieving its objectives.

25.156 The Agency is lacking important information about hazards in the food supply and the impacts on humans to make management decisions. This is complicated by the fact that the Agency must rely on others for some of this information.

25.157 The Agency has missed opportunities for broad public debate on key strategic questions, including the following: How much inspection attention should be paid to the non-federally registered sector given its mandate? Should the Agency continue to provide industry with considerable flexibility in implementing the HACCP-based approach? Should it be leading internationally in implementing the further redesign of the HACCP-based approach in the meat industry? It is important that the Agency engage stakeholders, including Parliamentarians and the public, in a debate on these questions.



About the Audit

Objectives

The audit's objectives were the following:

- to assess whether the Agency's inspection regimes have been satisfactorily designed, structured, organized and implemented to achieve their safety and other objectives;
- to identify factors and constraints that affect the development or implementation of the inspection regimes; and
- to determine whether the Agency is proceeding adequately with initiatives to improve its management of risks to food safety relative to its mandate for food inspection.

Scope

Our audit assessed the regulatory regimes and food inspection programs that the Agency uses to discharge its responsibilities for safe food and consumer protection. We examined a number of its strategic initiatives for managing the risks to food safety:

- Integrated Inspection System
- risk-based resourcing
- imported commodities
- non-federally registered establishments
- implementation of the HACCP-based approach
- compliance and enforcement activities
- human resource management.

In addition, we also assessed three factors that we believe influence the success of these initiatives:

- information for management decisions and measuring performance
- risk communication framework
- corporate capacity.

Approach

We interviewed staff at the Agency's headquarters in Ottawa, in regional offices and on site at processing establishments. We spoke to management in a number of processing establishments. We obtained and reviewed documentation, including legislation, regulations, corporate documents, policies and procedures manuals, inspection files, minutes of meetings, planning documents, studies, audits and information from Web sites. We also interviewed the staff of provincial food inspection programs and at the United States Department of Agriculture and Food and Drug Administration.

To assess the adequacy and consistency of compliance activities, we reviewed the inspection files for 21 establishments (six non-federally registered establishments and 15 federally registered establishments). We chose at least one file from each of the Agency's four geographical areas (Atlantic, Quebec, Ontario, West). Nine involved prosecutions during the latter half of 1999, and 12 had issued recalls at some time between June 1998 and March 2000.

Criteria

We drew our audit criteria from the Agency's legislation and regulations, performance report, annual report and corporate business plan; expectations developed by the General Accounting Office in audits of the U.S. food safety system; work of the Canadian Food Inspection System Implementation Group; and prior and current work of our Office. The criteria were designed to examine issues identified in our Report, Chapter 24, Federal Health and Safety Regulatory Programs.

We expected that the Agency would have done the following:

- analyzed alternative regulatory regimes;
- developed clear policies and procedures for resolving complaints;
- set up effective departmental accountability and review structures that are consistent with its regulatory approach;
- prepared clear statements of guiding ethical principles and conflict-of-interest policies;
- developed clear policies for the establishment of cost-recovery fees;
- established clear, accurate, comprehensive and timely reporting to management and Parliament;
- identified and prioritized risks to food safety and incorporated these risks in its decision-making process; and
- designed and delivered food inspection programs to protect against risks to food safety.

More specific expectations are presented in each section of this chapter.

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Chapter 26

Health Canada

Regulatory Regime of Biologics

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	26-5
Introduction	26-7
A wide range of safety risks are associated with biologics	26-7
There are various approaches to regulating products	26-8
Health Canada is responsible for regulating biologics	26-9
Focus of the audit	26-10
Observations and Recommendations	26-10
Regulatory Frameworks and Approaches	26-10
Health Canada is taking a proactive approach to identifying risks	26-10
The current regulatory framework for biologics is largely based on a traditional approach to regulations	26-10
Health Canada is moving toward a standards-based regulatory approach for some biologics	26-11
Implementing traditional prescriptive regulations presents challenges	26-12
Early experiences in using and referencing standards in regulations for biologics	26-14
Evaluation and Ongoing Review	26-18
Many of the reviews point to problems observed during our audit	26-18
Organizational Realignment	26-19
A product life-cycle approach to managing biologics is being examined	26-19
Conclusion	26-19
About the Audit	26-21
Exhibits	
26.1 Examples of Some Commonly Known Biologics	26-7
26.2 Responsibility for Biologics at Health Canada	26-9

Health Canada

Regulatory Regime of Biologics

Main Points

26.1 Our audit of Health Canada's regulatory regime for biologics found that the Department is taking a reasonable approach in developing and implementing frameworks and approaches for regulating different biologics (blood and blood products, cells, tissues and organs of human or animal origin, vaccines and other biological drugs). Our work focusses on the management of the regime for regulating biologics. Therefore, we did not conclude on the effectiveness of specific regulations or on the safety of specific products.

26.2 The Department faces important challenges. It needs to do the following:

- to establish more formal guidance to determine the most appropriate regulatory approach for a given situation;
- to maintain the currency of regulations;
- to obtain sufficiently qualified staff to deal with the rapid technological advances in biologics; and
- to implement sufficient databases to adequately process, analyze and disseminate information on adverse reactions and events.

26.3 Overall, we found that the Department has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics. Though the science for xenotransplantation (the use of live, non-human animal cells, tissues and organs in humans) is not perfected, the Department is being proactive in planning a regulatory regime for xenografts. However, many delays have characterized the implementation of the regulatory regime for transplantation of human tissues and organs. Transplants of these types have been performed in hospitals for a number of years.

Background and other observations

26.4 Health Canada is responsible for regulating biologics under the provisions of the *Food and Drugs Act* and Regulations. Accordingly, the Department's objective is to ensure that biologics available to Canadians are safe, effective and of high quality. The Bureau of Biologics and Radiopharmaceuticals does much of this work with several other bureaus in the Therapeutic Products Directorate of the Health Products and Food Branch. As well, the Population and Public Health Branch conducts some surveillance activities.

26.5 The safety of biologics is an important aspect of public health. Rapid advances in science have resulted in increasing regulatory challenges. Many of the federal laws that govern health and safety were developed decades ago. Today, science is yielding new products that up until recently were unimaginable. Some products and practices carry potential health risks and raise difficult questions that current legislation may not be fully equipped to address. It is important that regulations remain current. It is also necessary to ensure that the tools required to put in place regulations — or other interventions — are also current and sufficiently flexible to deal with changing demands.

26.6 The Department follows a traditional approach with prescriptive regulations to regulate most biologics. This framework is well-established and offers some benefits. However, Health Canada believes that the framework is not sufficiently flexible to deal with emerging products and other technological advances in

biologics. Therefore, the Department is moving toward adopting a standards-based regulatory approach for blood, tissues and organs, and xenografts. Under this approach, third-party standards development organizations develop standards with Health Canada and other interested parties.

26.7 The Processing and Distribution of Semen for Assisted Conception Regulations (the Semen Regulations) represented the only regulatory framework in biologics that incorporated by reference in the Regulations standards developed by a third party. While this approach appears to offer some benefits including more flexibility to deal with rapid changes in technology, there are some important issues that need to be addressed. The Department needs to ensure that compliance is verified and that accountability is assured for regulations referencing its own technical standards. The Department needs to apply lessons learned from the implementation of the Semen Regulations to future standards-based regulatory frameworks, as applicable.

Health Canada's responses to our recommendations are included in this chapter. The Department agrees with the recommendations and indicates the actions that it is taking or intends to take to address them.

Introduction

A wide range of safety risks are associated with biologics

26.8 In recent years there has been significant public interest in the safety of biologics, which include blood and blood products, cells, tissues and organs of human or animal origin as well as vaccines and other biological drugs. (Exhibit 26.1 presents examples of commonly known biologics.) This interest has been demonstrated by the 1993 report of the Royal Commission on New Reproductive Technologies, the 1997 final report of the Commission of Inquiry on the Blood System in Canada (Krever Commission) and the 1999 Report of the Standing Committee on Health on Organ and Tissue Donation and Transplantation.

26.9 Unlike pharmaceutical drugs that are manufactured from chemical sources, biologics are produced from biological or "living" material, that is, material from humans, animals or micro-organisms. In particular, there is a greater variance in the components of biological products than in those of chemically derived products. Hence, there is a wide range of safety risks associated with biologics. Some of the risks are known, such as risks associated with the transmission of infectious diseases, transfusion reactions and bacterial contamination. However, others are not as well understood or are emerging risks associated with the transmission of unknown infectious agents. Examples of the agents include animal viruses, new variant Creutzfeldt-Jakob disease and the transmission of malignant disease.

26.10 The impact that biologics have on Canadians is both highly individualized and far-reaching. There are some 350 biological drugs approved for sale in Canada, of which about one third are vaccines. A significant proportion of these products are considered to be leading-edge technology and of particular interest to persons who face life-threatening and seriously debilitating illnesses. This fact is evidenced by the proportionately higher percentage of priority reviews of biological drugs than of pharmaceutical drugs. In 1998, 1,564 kidney, liver, heart and lung transplants occurred, but there was a considerably higher demand for organ transplants. While the technology for transplants of tissues (such as cornea, skin and bone marrow) is increasing, statistics on their frequency are not readily available. Each year approximately 3,500 Canadian women obtain donated semen for assisted conception, and many thousands of Canadians receive blood and blood products. In 1999 Canadian Blood Services and HÉMA-QUÉBEC collected about 920,000 units of whole blood.

26.11 With the recent advances in science and reproductive technologies, it is expected that there will be a significant growth in new biological products and therapies, such as xenografts (the use of live, non-human animal cells, tissues and organs in humans), gene therapy and stem cell therapy. Xenotransplantation, while controversial, is expected to gain from significant technological advances as the demand for human organs far exceeds their supply. These rapid developments require a regulatory regime that is up-to-date and responsive to change.

There is a wide range of safety risks associated with biologics.

It is expected that there will be a significant growth in new biological products and therapies. These rapid developments require a regulatory regime that is up-to-date and responsive to change.

Exhibit 26.1

Examples of Some Commonly Known Biologics

- Allergenic substances used for the treatment or diagnosis of allergic or immunological diseases
- Blood and blood derivatives
- Certain hormones and enzymes
- Insulin
- Semen
- Tissues: skin, eye cornea
- Organs: liver, heart, lungs
- Vaccines

Source: Health Canada

There are various approaches to regulating products

26.12 There are various instruments, like public education, voluntary guidelines, standards and regulations, that the government can use to ensure the safety of products available to Canadians. The development and application of regulations have generally followed either the traditional prescriptive approach or the more recent standards-based approach. Many government regulatory regimes fall somewhere in between these approaches by encompassing characteristics of both. The government is accountable for all its regulations, regardless of how they are developed and how standards are incorporated or referenced in regulations.

26.13 Regulations developed using the traditional prescriptive approach generally contain detailed product and manufacturing standards, which are written into the regulations themselves. Under this approach, the government leads the development of the regulations by following a prescribed regulatory process, which includes the requirement for a regulatory impact analysis statement. While the government does not necessarily seek the agreement of interested parties, it does consult them.

26.14 In 1996 the Treasury Board Secretariat launched the Standards and Regulatory Reform Program and encouraged all government departments to participate in developing standards-based regulatory regimes, where appropriate. Under this approach, standards development organizations develop standards with interested parties by following an accredited process based on consensus. The government may take part in developing the standards, but it is only one of several stakeholders comprising relevant industry representatives, professional bodies, technical experts and other interested parties. Where consensus cannot be reached easily it can considerably lengthen the regulatory development process.

26.15 Once the standards are approved and published, regulatory authorities may reference or incorporate them in whole or in part in the regulations, making them mandatory by law. Where standards are incorporated in or written into the regulations, they generally take on the characteristics of the traditional prescriptive approach because subsequent amendments must go through the prescribed regulatory amendment process. Where standards are referenced in the regulations, the relevant sections of the third party's standards document are named in the regulations and usually accompanied by the ambulatory phrase "as amended from time to time." For those to whom the regulations apply, the regulatory authority needs to make the referenced material available to them. Any subsequent changes to the standards are made by the standards development organization and are not subject to the prescribed regulatory amendment process.

26.16 In either case the regulatory authority maintains ultimate accountability for ensuring that the regulations are up-to-date. Under the traditional prescriptive approach, the government regularly reviews its regulations to ensure their ongoing relevance and currency and changes them accordingly. Under the standards-based approach, the government relies on the standards development organization to periodically review and update the standards document. The government may take part in this review as an interested stakeholder, but it cannot unilaterally change the organization's document. However, the government can change its own regulations and, as such, may elect to change the regulations' reference to the standards document in the event an agreement cannot be reached on proposed changes. Yet this alternative could also considerably lengthen the process.

26.17 Under both approaches, the regulatory authority often supplements regulations with policies, guidelines and operating procedures according to which manufacturers must meet certain requirements and submit to periodic inspections to ensure compliance. In addition, regardless of the adopted approach, the government is accountable for implementing the regulatory regime and establishing adequate compliance and enforcement systems.

26.18 Standards-based regulatory regimes are intended to provide greater flexibility than traditional prescriptive regimes when changes to the regulations are required quickly. Regulatory authorities have noted that traditionally, it can take up to two years to amend regulations according to established rules — by this time it can be too late to capture even further technological changes that have occurred. Standards-based regimes, which reference a third-party's standards document, are believed to be a quicker means for making amendments, provided that consensus can be reached in responding to new knowledge or technological advances. Proponents of standards-based regimes believe that they result in the following:

- the use of clearer and simpler language;
- more acceptance and greater compliance due to reduced need for education and enforcement because the standards are usually derived from consensus of all interested parties; and
- the harmonization of national standards with international standards.

Health Canada is responsible for regulating biologics

26.19 Under the provisions of the *Food and Drugs Act* and Regulations, Health Canada is responsible for regulating biologics. Accordingly, the Department's objective is to ensure that biologics available to the people of Canada are safe, effective and of high quality. The Bureau of Biologics and Radiopharmaceuticals, which carries out much of this work, is one of several bureaus in the Therapeutic Products Directorate of the Health Products and Food Branch. For 1999–2000, the Department estimates that it allocated to biologics $16.1 million and 157 full-time employees of the Therapeutic Products Programme. Additional resources were budgeted elsewhere in the Department, primarily for surveillance activities of vaccines and the Blood Safety Program.

Under the provisions of the *Food and Drugs Act* and Regulations, Health Canada is responsible for regulating biologics.

26.20 Other bureaus in the Directorate and other branches of the Department also share responsibility for biologics (see Exhibit 26.2). The Bureau of Compliance and Enforcement, whose activities play a role in regulating biological drugs, including vaccines, blood and semen, is building its technical expertise for organs,

Exhibit 26.2

Responsibility for Biologics at Health Canada

Health Products and Food Branch	Population and Public Health Branch
Therapeutic Products Directorate	**Centre for Infectious Disease Prevention and Control**
• Bureau of Biologics and Radiopharmaceuticals • Bureau of Compliance and Enforcement • Bureau of Policy and Coordination • Bureau of Licensed Product Assessments • Medical Devices Bureau	• Bureau of Infectious Diseases Blood-Borne Pathogens Division Immunization Division

Source: Health Canada

other tissues and xenografts. The Bureau of Policy and Coordination leads the development of policies, regulations and legislation and supports the various expert working groups. The Bureau of Licensed Product Assessments monitors reports of adverse drug reactions to licensed drug products, except immunization vaccines, which are the responsibility of the Division of Immunization in the Centre for Infectious Disease Prevention and Control, Population and Public Health Branch. The Division of Blood-Borne Pathogens conducts some surveillance, particularly of diseases that may be transmitted by blood. The Medical Devices Bureau tests and approves serological test kits used for the screening and diagnosis of infectious diseases.

Focus of the audit

26.21 We set out to determine how well Health Canada's regulatory regime is working in the regulation of biologics.

26.22 We present details on our audit's objective, scope, approach and criteria at the end of this chapter in **About the Audit**.

Overall, we found that Health Canada has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics.

Observations and Recommendations

Regulatory Frameworks and Approaches

Health Canada is taking a proactive approach to identifying risks

26.23 Health Canada regulates biologics under the *Food and Drugs Act*. The purpose of the Act is to protect the health and safety of Canadians and enable the federal government to make regulations for carrying out the provisions of the Act. Given this mandate, we expected that Health Canada would adopt a proactive approach to identifying risks of biologics that could threaten the health and safety of Canadians.

26.24 In identifying risks, the Bureau of Biologics and Radiopharmaceuticals works closely with other bureaus, branches and organizations in Canada and abroad. As well, the Department maintains several expert advisory committees in this area. For example, the Expert Advisory Committee on Blood Regulation provides medical, scientific, ethical and communications advice on current and emerging issues concerning blood. There are also expert advisory committees on xenograft regulation and HIV therapies. In addition, the Department uses internal working groups such as the Steering Committee on Blood, Tissues, Organs and Xenotransplantation (BTOX), which acts as an advisory body, and the BTOX Policy Development Team, which is developing a risk management framework for blood, tissues and organs, and xenografts.

26.25 An example of the Department's proactive approach to identifying risks is the recent policy on variant Creutzfeldt-Jakob disease and the donation of blood and blood products by donors who have visited countries that present a higher risk of exposure to the disease. Health Canada took this strictly precautionary measure to reduce the theoretical risks of transmitting variant Creutzfeldt-Jakob disease (which is linked to mad cow disease) through the blood supply. The Department will continue to monitor the implementation of the policy and update it as the science around this disease develops.

26.26 Overall, we found that the Department has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics.

The current regulatory framework for biologics is largely based on a traditional approach to regulations

26.27 The current regulatory framework for biologics is largely based on a traditional approach for developing

and maintaining regulations. Biological drugs, including vaccines, blood and blood products are subject to prescriptive regulations detailed in the *Food and Drugs Act* and several divisions of the Food and Drug Regulations. For years, as has been done in other countries, Health Canada has followed a traditional approach for regulating biological drugs and vaccines. This approach is well established and offers some benefits, particularly for products that require good manufacturing practices, on-site inspection and licence monitoring to ensure the safety and effectiveness of the products. However, the Department acknowledges that the Act and the Regulations have not kept pace with major advances in molecular biology and manufacturing technology. As such, the Department believes that this approach is not sufficiently flexible to deal with emerging products, such as xenografts, and other technological advances that characterize biologics.

26.28 Until recently, the Processing and Distribution of Semen for Assisted Conception Regulations (the Semen Regulations) represented the only regulatory framework in biologics that incorporated by reference in the Regulations standards developed by a third party. However, similar frameworks are planned for tissues and organs, xenografts, and blood and blood components, excluding fractionated blood products.

Health Canada is moving toward a standards-based regulatory approach for some biologics

26.29 The Semen Regulations were introduced in response to a recommendation of the 1993 Royal Commission on New Reproductive Technologies. In June 1996 they sought to establish minimum national standards that would decrease the risk of infectious disease transmission through semen when used in assisted conception. The Regulations made reference to specific sections of the Guidelines for Therapeutic Donor Insemination that had been developed and published by the Canadian Fertility and Andrology Society in 1988 and later revised in 1992. In effect, these guidelines (to the extent they were specifically referenced) were regarded as standards that had to be followed. The guidelines were largely voluntary until 1996.

26.30 In 1996 and 1997 the Department decided to develop similar frameworks for tissues and organs, xenografts, and blood and blood components (excluding fractionated blood products). The blood framework would contain compatible standards for hospital blood banks. Under this model, national standards of recognized standards development organizations would be referenced either in whole or in part in the Food and Drug Regulations. Requirements for registration or licencing of service providers, adverse event and activity reporting and compliance enforcement would be the subject of stakeholder consultations. These frameworks are expected to be in place by 2001-02 or earlier.

26.31 In recent years Health Canada has consciously moved toward adopting standards-based regulatory frameworks that reference the standards of standards development organizations for some biologics. The Department believes that these frameworks will give it greater flexibility to respond and adapt to rapid advances in technology and to the diverse nature and risks of biologics. However, the Department has concerns that the standards-based approach will not always keep pace with the expected rate of technological change. Only the standards development organizations can change their standards. For this reason, Health Canada may be unable to influence changes in the standards that it feels are necessary because divergent views may make consensus difficult — a basic principle of the model. This limitation

Health Canada has recognized that a variety of frameworks and approaches are necessary to deal with the wide spectrum of risks associated with biologics.

We found that Health Canada has had difficulty managing the workload of pre-market reviews of new biological products and conducting post-market assessments of products.

could significantly lengthen the process because the Department would have to initiate regulatory amendments if it decides that the changes are critical. As a result, Health Canada is considering the option of referencing internally its own technical standards, which it could change as necessary.

26.32 Depending on the nature and risks of a product and what is currently known about it, Health Canada can follow various approaches for regulating biologics. Different approaches have benefits and limitations. Because scientific knowledge is rarely complete, the Department must take into account the best available knowledge and weigh it against the possible outcomes when choosing an approach. Health Canada has recognized that a variety of frameworks and approaches are necessary to deal with the wide spectrum of risks associated with biologics. However, the Department has not developed criteria and guidelines to help its officials decide on what approach to adopt.

26.33 Health Canada should develop clear criteria to assist its officials in determining which regulatory approach is the most appropriate for a given situation.

Department's response: Agree. In addition to the existing Treasury Board guidance concerning regulatory tools, a Legislative Instruments project has been undertaken to address the challenges presented by the unique situations relative to biologics.

Implementing traditional prescriptive regulations presents challenges

26.34 Under their prescriptive regulations, biological drugs, including vaccines are subject to detailed pre-market reviews, including laboratory testing before their approval for sale in Canada. For all of these products, Health Canada validates manufacturing methods and conducts pre-approval inspections of facilities in Canada and abroad and inspections of the manufacturing processes and facilities in Canada following approval. These two types of inspection are designed to ensure that the manufacturer (or blood collection facility) and the products comply with detailed regulatory requirements, including good manufacturing practices. Where applicable following market authorization, the Department also tests the products and authorizes their release lot by lot to ensure their safety and efficacy.

26.35 This regulatory framework requires a complement of sufficiently trained staff and surveillance systems. We found that the Department has had difficulty managing the workload of pre-market reviews of new biological products and conducting post-market assessments of products. Because of these difficulties, there is a significant backlog of new biological drug submissions, established performance targets are often missed and post-market assessments are incomplete. These problems are expected to worsen with the implementation of proposed changes to the regulatory framework that will decrease the present 60-day default period for approval to only 30 days for many clinical trial submissions. The Department received the authority to increase staff to meet the demands of this shorter approval time. However, management has low expectations for finding qualified resources in the immediate future. It is estimated that this shorter default period will further increase the backlog of submissions for new biological drugs.

26.36 Adequacy of human resources. In November 1997 the Krever Commission recommended that the Bureau of Biologics and Radiopharmaceuticals be given sufficient resources to carry out its functions properly. In 1998 the government announced a new investment of $125 million over the next five years to strengthen Health Canada's blood safety program, including

regulatory and surveillance programs for related biologics. The Department also received permission to hire 84 full-time employees beginning in 1998–99 and up to a total of 133 by 2000–01.

26.37 According to an internal report, the Department had not filled by August 2000 30 of 94 positions allocated to the Therapeutic Products Programme for 1999–2000. Vacant positions were identified as "staffing in progress" or "staffing to be initiated" and pertained to compliance and enforcement investigations, pre-market and post-market reviews, post-market surveillance, regulatory research and policy development. The report attributed these shortfalls mostly to a lengthy staffing process and the unavailability of qualified candidates. Our interviews with departmental managers revealed additional reasons for being unable to staff these positions. These reasons include non-competitive salaries, management's inaction to initiate staffing due to a lack of time to hire and train new recruits and potential candidates' unwillingness to work in biologics in a post-Krever environment.

26.38 Post-market surveillance and ongoing risk assessments. Post-market surveillance allows for reporting to the Department of unforeseen adverse reactions and events. (These reactions and events are undesirable side effects experienced by patients, but not foreseen at the time the product was approved.) It also provides information to undertake ongoing risk assessments. To protect the health of Canadians, we would expect the Department to know quickly if any approved product has unexpected adverse effects. We would also expect the Department to systematically assess the risk and effectiveness of approved biological products.

26.39 While the established regulatory regime for biologics provides for post-market surveillance and ongoing risk assessments, we found a number of problems in these activities. There was little post-market surveillance of biological drugs supported by comprehensive data. The Bureau of Biologics and Radiopharmaceuticals often did not review and assess adverse reaction reports for products under clinical trials in a timely manner. Further, the Bureau of Licensed Product Assessments does not have a database to adequately process, analyze and disseminate information on adverse reactions and events for biologics. In addition, we have learned that the Department does not review adverse reaction reports from industry in other countries; it stores them in boxes. The Department attributes these problems largely to a lack of qualified candidates for vacant positions.

Health Canada had not filled by August 2000 30 of 94 positions allocated to the Therapeutic Products Programme for 1999–2000.

26.40 We also found a weakness in the reporting requirements for post-market surveillance. Even if the Department could adequately process and disseminate post-market assessments, its ability to assess risks is limited given that health practitioners' reporting of post-market events is voluntary. We recognize that Health Canada has no authority to compel physicians to report these events and that non-reporting is largely beyond its control because authority for medical practitioners rests with the provinces. However, the result of this weakness has been a long-standing concern for inadequate reporting. As such, the Department plans to more proactively obtain this information by contracting targeted studies as part of its strategy to strengthen its post-approval assessment activities.

We found a number of problems in Health Canada's post-market surveillance activities.

26.41 Health Canada should take measures to ensure authorized positions are staffed.

Department's response: *Agree. Management recently approved a special Human Resources Initiative to accelerate recruitment. The project will focus internally on the retention of the highly qualified staff needed to deliver the program and externally on attracting and*

recruiting highly specialized staff to fill the numerous vacancies in a timely fashion.

26.42 Health Canada should implement sufficient databases to adequately process, analyze and disseminate information on adverse reactions and events for biologics.

Department's response: Agree. A partnership arrangement is being developed with the U.S. Food and Drug Administration for a combined database which will contain both U.S. and Canadian adverse event reports. Canadians will be better served by having access to a much larger database with information on rare, but critical, adverse reactions.

Health Canada did not inspect or monitor the compliance of semen banks from the implementation of the Semen Regulations in June 1996 to March 1999.

Early experiences in using and referencing standards in regulations for biologics

26.43 The subsequent standards-based models planned for blood and blood components (excluding fractionated products), tissues and organs, and xenografts are different in some ways from the semen model. Yet the approaches and issues are sufficiently similar to gain valuable lessons that can be applied more broadly. We have noted the intended benefits of standards-based regulatory approaches over traditional regulatory approaches. These benefits include greater flexibility in changing regulations to ensure currency. Greater compliance is also expected because the regulations would be largely derived from consensus of all the interested parties. However, Health Canada's experience with the implementation of the Semen Regulations demonstrates that standards-based regimes can also present challenges for the regulatory authority. Some of these challenges, such as the lack of compliance verification, can be problematic, irrespective of the regulatory approach. Other challenges, such as the need to maintain transparency and flexibility when using third-party organizations, are specific to standards-based regimes.

Health Canada's experience demonstrates that standards-based regimes can present challenges for the regulatory authority.

26.44 Lack of compliance verification. Health Canada did not inspect or monitor the compliance of semen banks from the implementation of the Semen Regulations in June 1996 to March 1999. Although an accreditation process and inspection regime were intended to be part of the regulatory framework developed in 1996, these activities did not occur. Nor were there any plans established before 1999 for the inspection of semen processing facilities and standard operating procedures for inspection did not exist.

26.45 Reasons for not inspecting these facilities before March 1999 are unclear. Our interviews with Health Canada officials revealed various opinions on this inaction; however, we found no documented risk analysis to support it. The officials informed us that resources and attention were focussed on blood — the priority at the time. The risk of infectious disease transmission through semen was perceived to be low relative to blood. As well, the transmission of disease was considered unlikely because there had been no reported cases of sexually transmitted diseases through semen using assisted conception since the Regulations came into force in 1996. Adding to the lack of attention were the departure of key personnel and organizational changes, which affected the overall inspection strategy of the Department shortly after the introduction of the Regulations.

26.46 In March 1999 problems identified by an Ontario semen bank initiated that following summer a national investigative inspection by Health Canada of all known semen establishments. The Department found that 43 of the 51 establishments under investigation did not comply fully with the Regulations. Of these 43, 17 did not perform the required tests for specific infectious diseases, and more than half did not maintain sufficient records for Health Canada to determine

that they had done the required tests. As a result, the Department detained much of the semen supply for assisted conception in Canada, which created considerable anxiety among recipients.

26.47 Overall, we observed that the Department's semen investigation was comprehensive and it took action to mitigate risks. In April 1999 the Bureau of Compliance and Enforcement established an inspection program for all known semen establishments. The Bureau of Biologics and Radiopharmaceuticals performed health hazard evaluations to determine the extent of risk to public safety where non-compliance was observed. Shortly thereafter, the Bureau of Compliance and Enforcement began to formulate and test standard operating procedures for investigative inspections of semen establishments. In addition, the Department trained compliance officers to give them the knowledge and skills for inspecting these establishments.

26.48 The 1996 guidelines referenced in the Semen Regulations did not provide needed flexibility. These guidelines were developed by the Canadian Fertility and Andrology Society, a not-for-profit corporation. The members of the Society are volunteer practitioners and scientists involved in reproductive medicine and fertility research. Because the Society is not a national standards development organization, there was no specific responsibility for it to follow established procedures for reviewing and updating the guidelines. Health Canada also did not assume this responsibility, and no effort was made to periodically review and update the guidelines until 1999.

26.49 The guidelines were very specific about what tests were to be used for donors and semen to detect infectious diseases and when they were to be used. The semen investigation by Health Canada revealed significant technological advances in equivalent and sometimes more sensitive tests, which some banks were applying. The guidelines were inflexible because they did not allow for any tests other than those that were specified. Six of the investigated semen establishments had their semen supply detained because of non-compliance with the Regulations' mandated tests. Ironically, the one case of sexually transmitted disease, which was identified in the investigation, does not appear to have been the result of non-compliance with the guidelines. The semen establishment had done the test mandated by the guidelines. However, this test has since been proven to be less effective in detecting the disease than the newly developed test. While this case is still under investigation, the current guidelines have been updated to include the newly developed and more sensitive test.

Later in 1999 Health Canada found that 43 of the 51 establishments under investigation did not fully comply with the Semen Regulations.

26.50 The guidelines were revised by the Canadian Fertility and Andrology Society in consultation with Health Canada following the semen investigation. Introduced in March 2000, they too were acknowledged by departmental officials as being very prescriptive and not allowing for alternate tests. Recently, however, Health Canada changed the Semen Regulations to authorize alternate tests, which it must approve, in order to achieve the flexibility that standards-based regulatory frameworks are intended to provide.

26.51 Efforts to maintain transparency and flexibility. The introduction of standards-based regulatory frameworks has presented a new element about which regulatory authorities need to be concerned. The involvement of the standards development organizations in the frameworks means that the organizations could be susceptible to litigation if something goes wrong. The Semen Regulations until recently made specific reference to guidelines of the Canadian Fertility and Andrology Society. The Society stated that its March 2000 guidelines would be withdrawn on 1 August 2000. Departmental officials

The involvement of standards development organizations in standards-based frameworks means that the organizations could be susceptible to litigation if something goes wrong.

informed us that the Society had concerns about legal liability. The withdrawal of the guidelines would have created a void in the regulatory framework for donor screening and semen testing for infectious disease agents as of that date. However, Health Canada incorporated on 27 July 2000 specific sections of the guidelines into a departmental directive, which is now referenced in the Regulations.

26.52 The Department faced two challenges in referencing standards contained within its own directive. It had to ensure transparency of decision making when amending the guidelines in the directive. At the same time, it needed to maintain flexibility for making changes quickly to keep pace with technological advances.

There have been numerous delays in establishing national safety standards for the transplantation of human tissues and organs.

26.53 Federal regulatory policy requires that the regulatory authority ensure public scrutiny when changing the regulations as part of the prescribed process. By doing so, the authority ensures the transparency of decision making and ultimately accountability. Accredited standards development organizations must consult stakeholders and obtain a consensus before it can change its standards. The organizations, by their independence, ensure that the authority does not have a mechanism to circumvent public scrutiny of the regulatory process, which helps to ensure public accountability. If a department references its own internal directive in the regulations, it creates a process that does not require public consultation when it changes the directive.

26.54 Health Canada wanted to ensure that the public could provide input on future changes to the standards for semen for assisted conception, which are in the internal directive. Therefore, the Department used a static reference (i.e., changes cannot be made without going through the prescribed regulatory process) to allow the public to do so. This decision was in lieu of the ambulatory reference, which allows for amendments from time to time. However, the Semen Regulations have now lost the primary advantage of the standards-based approach, i.e., providing the flexibility to make changes quickly in order to keep pace with technological advances. Health Canada intends to address this problem in the new regulatory framework for tissues and organs, including reproductive tissues, which is under development.

26.55 As part of the regulatory framework for tissues and organs, the Department is developing standards for tissues and organs that are separate from standards for semen for assisted conception. As was the case with semen, the standards development organization involved in the regulatory framework for tissues and organs was also concerned that it might be susceptible to future litigation. This organization requested legal indemnity beyond an amount which it could bear in the event of legal action over the standards. The federal government agreed to indemnify the organization by accepting to pay any possible claims that court decisions would impose beyond this amount. Once the contract has been finalized, it is expected that the standards development organization will continue to maintain the standards for tissues and organs and maintain transparency and flexibility of the proposed regulatory framework.

26.56 Delays in the development of a regulatory framework for tissues and organs. Like several other countries, Canada is developing a regulatory framework for tissues and organs. However, it has been doing so for a number of years, and there have been numerous delays in establishing national safety standards. In October 1995 Health Canada hosted the National Consensus Conference on the Safety of Organs and Tissues Used in Transplantation. Following the conference, a working group of transplant practitioners drafted a Canadian general standard for the safety

of organs and tissues used in transplantation.

26.57 In its April 1999 report, the Standing Committee on Health saw a clear role for the federal government in developing regulatory standards for the safety and quality of organs and tissues, similar to those for blood and semen. It also noted that formalizing the Canadian general standard for the safety of organs and tissues used in transplantation had taken several years. There have been frequent calls for strong national safety standards. For this reason, the committee recommended that the Minister of Health have the standard and its subsets approved and made mandatory as soon as possible, preferably within six months, through incorporation by reference into regulations under the *Food and Drugs Act*. The Department expects to complete a regulatory framework for tissues and organs in 2001–02.

26.58 Health Canada is proactive in planning a regulatory framework for xenografts. Organ and tissue transplants have been taking place in hospitals for a number of years. Xenotransplantation, though not scientifically perfected, is rapidly evolving, and some investigational studies have been proposed. However, it is generally accepted that the potential benefits of this medical technology do not come without risks to the transplant recipient and the general public.

26.59 In 1997 Health Canada sponsored a national forum on xenotransplantation. The forum recommended that the Department develop a standards-based regulatory approach for xenografts. It also identified other issues such as patient ethics that need to be addressed.

26.60 In its April 1999 report, the Standing Committee on Health recommended that Health Canada be proactive in informing and consulting the public on xenotransplantation. Further, the Department would need to ensure that clinical trials for xenografts not be approved until the proposed xenotransplantation standards are enforceable.

26.61 Currently, there are no clinical trials of xenotransplantation that have been approved in Canada. We noted earlier the mandate of the Expert Advisory Committee on Xenograft Regulations. In September 1999 Health Canada published a proposed standard for xenotransplantation as an eventual criterion for clinical trials and regulations for xenotransplantation in Canada. The Department expects to complete a regulatory framework for xenografts following public consultations in 2001.

Health Canada is proactive in planning a regulatory framework for xenografts.

26.62 Lessons learned from implementing standards-based regulatory frameworks. Based on its use of referenced standards in the Semen Regulations, the Department is studying lessons learned from implementing standards-based regulatory frameworks. The objective of the study is twofold: to assess the outcome of the Therapeutic Products Programme's experience with incorporating referenced standards into regulations; and to identify positive and negative after-effects, areas for improvement and issues on the use of such frameworks for other biologics. At the time of our audit, the Department had not completed the study or presented it to senior management for review.

Based on its use of referenced standards in the Semen Regulations, Health Canada is studying lessons learned from implementing standards-based regulatory frameworks.

26.63 In our opinion, this study is an important undertaking by the Department. We are encouraged that it reflects many of our observations on the implementation of the Semen Regulations. In particular, the study reveals the need that standards be relevant and flexible in order to keep pace with technological advances, that compliance be verified and that accountability be assured for regulations referencing technical standards of the Department. Resolving these issues now is especially important given Health Canada's plans to implement standards-based regulatory frameworks for blood and blood components (excluding

fractionated products), tissues and organs, and xenografts.

26.64 Health Canada should complete its case study pertaining to the lessons learned in using standards-based regulatory frameworks, which draws upon the experience of implementing the Semen Regulations.

Department's response: *Agree. The case study pertaining to the lessons learned is being finalized, prior to presentation to senior management for review, but the principles of lessons learned are already being applied.*

26.65 Lessons learned from implementing the Semen Regulations should be applied to future standards-based regulatory regimes, as appropriate.

Department's response: *Agree. The case study of lessons learned from implementing the Semen Regulations, along with the policy paper from the Legislative Instruments project will be integral to the application of future standards-based regulatory regimes, as applicable.*

Evaluation and Ongoing Review

Many of the reviews point to problems observed during our audit

26.66 We expected Health Canada to undertake periodic evaluations or other reviews that measure program effectiveness and to report their results. We also expected the Department to have in place a system that continuously measures performance and to report on its performance.

26.67 As in any regulatory program, the regulatory authority is primarily responsible for ensuring the effectiveness of its regulations and established standards. Irrespective of the regulatory approach it adopts, the authority's periodic evaluations (or other reviews) and ongoing performance measurement are essential to assess the effectiveness of the regulations and the approach. These functions are especially important given the impact of biologics on the health and safety of Canadians; the rapidly changing environment that characterizes biologics; and the Department's move to adopt standards-based regimes for other biologics.

26.68 In recent years there have been several reviews and evaluations applicable to biologics, including the 1997 final report of the Krever Commission of Inquiry on the Blood System in Canada, various reviews of the drug approval process, and the evaluation of the cost recovery initiative completed this year. Although some of these reviews and evaluations were not specific to the regulation of biologics, they, nonetheless, identified needed improvements that affect biologics.

In recent years there have been several reviews and evaluations applicable to biologics. They identified needed improvements that affect biologics. Our audit has raised many of the same concerns.

26.69 Among other things, the Krever Commission made recommendations to strengthen the regulation of biologics, including the need for adequate resources. Other reviews also identified concerns about allocating adequate resources, not meeting performance targets, and making decisions open and transparent. Our audit has raised many of the same concerns.

26.70 The Department monitors its performance against the Krever Commission's recommendations that apply directly to Health Canada's sphere of operations. The Web site of the National Blood Safety Council contains information on the status of Health Canada's and others' implementation of the Commission's recommendations. There are performance reports on quarterly and annual biological drug review submissions, which list established targets for approving these submissions. The Department measures its performance against these targets. However, we did not find performance targets for monitoring other activities, such as the completeness

and timeliness of adverse reaction and event reporting.

26.71 The Department is developing an evaluation framework for its blood safety program. However, its most recent evaluation plan does not cover other biologics. The Department also intends to conduct an expert review of all activities related to blood regulation and surveillance by November 2002. This review is in response to the Krever Commission's recommendation that the Bureau of Biologics and Radiopharmaceuticals be audited every five years.

26.72 We encourage the Department to continue these activities given the importance of biologics and the safety considerations that we discuss in this chapter.

Organizational Realignment

A product life-cycle approach to managing biologics is being examined

26.73 In April 2000 Health Canada announced a realignment of its activities, partly to strengthen its health protection capabilities. Among other things, it has proposed the creation of a new directorate of biologics and genetics.

26.74 The management of biologics depends greatly on specialized expertise. The components of each biological product have varying characteristics that require specialized safety considerations. The Department is examining an approach to managing biologics based on products' life cycle. The approach would build product knowledge continuity, from the time a biological product is presented for pre-market review to the time it is taken off the market. To achieve this approach, one consideration is to gather Health Canada's experts in biologics and use the same team of pre- and post-market reviewers to monitor adverse reaction reports.

26.75 The Department's discussions on organizational realignment will address the issues identified in our audit and other reviews, including the following:

- staffing key positions that are still vacant;
- implementing sufficient databases to adequately process, analyze and disseminate adverse reactions and events;
- verifying compliance with regulations;
- ensuring the periodic review and update of referenced standards; and
- addressing the issue on referencing in regulations the Department's own technical standards.

26.76 Accordingly, the Department plans to adopt next year a cautious and measured approach to establishing a new organizational structure for regulating biologics.

Conclusion

26.77 Health Canada is taking a reasonable approach in developing and implementing frameworks and approaches for regulating different biological products. However, the Department faces some important challenges. It needs to establish more formal guidance to determine which regulatory approach is most appropriate for a given situation. It also needs to maintain the currency of regulations and have sufficient qualified staff to deal with the rapid technological advances in biologics.

26.78 Health Canada has adopted new regulatory approaches so that it has greater flexibility to meet these challenges. However, the Department is concerned that even these new approaches may not be able to keep pace with the expected rate of technological change.

26.79 The Department follows a traditional approach with prescriptive regulations to regulate most biologics.

This framework is well-established and offers some benefits. However, Health Canada believes it is not sufficiently flexible to deal with emerging products and other technological advances in biologics.

26.80 The Department is moving toward a standards-based regulatory approach for some biologics. However, this approach also has its unique challenges. The Department needs to ensure that the standards on which its regulations are based are up-to-date and provide the needed flexibility to respond to new knowledge or technological advances. In addition, Health Canada needs to address the accountability issues that have emerged as a result of standards writing organizations' concerns for legal liability. Overall, it needs to apply the lessons learned from implementing the Semen Regulations in the development of standards-based regulatory frameworks planned for other biologics.

26.81 The government is accountable for all of its regulations, regardless of how they are developed and how standards are incorporated or referenced in regulations. The government is also accountable for implementing the regulatory regime and establishing adequate compliance and enforcement systems. As well, continuous review and evaluation by Health Canada are essential to assess the effectiveness of its regulations and approaches used.

26.82 Rapid advances in science have resulted in increasing regulatory challenges. Many of the federal laws that govern health and safety were developed decades ago. Today, science is yielding new products that up until recently were unimaginable. Some products and practices carry potential health risks and raise difficult questions that current legislation may not be fully equipped to address. This trend is expected to continue at an increased pace.

26.83 It is important that regulations remain current. It is also necessary to ensure that the tools required to put in place regulations — or other interventions — are also current and sufficiently flexible to deal with changing demands.

About the Audit

Objective

We set out to determine how well Health Canada's regulatory regime is working in the regulation of biologics.

Scope and Approach

We examined Health Canada's framework and approach for regulating biologics. We looked at its process for deciding where regulations or standards are required for certain biologics. We also looked at the various frameworks and processes for providing the Department with information on the effectiveness of adopted regulations and approaches. We focussed on the management of the regime for regulating biologics. Therefore, we did not conclude on the effectiveness of specific regulations or on the safety of specific products.

Criteria

Regulatory programs are to be designed, organized and implemented based on the following:

- a proactive anticipatory approach, where appropriate;
- a comprehensive analysis and assessment of the nature and magnitude of risks;
- a comprehensive analysis of alternative regulatory approaches and tools to address identified risks;
- a clear understanding of the respective roles and responsibilities of different levels of government, industry and other parties to facilitate collaboration and enforcement in protecting public health and safety;
- prescribed standards, where appropriate and applicable;
- up-to-date legislation and regulations, where required;
- timely, efficient and effective implementation of regulatory action, including, where appropriate, conformity and compliance with prescribed standards, compliance with activity reporting and adverse events reporting, and inspections and responses to incidents of non-compliance or serious adverse events;
- a sound national database, where appropriate; and
- continuous review and appropriate accountability structures, including procedures to measure the effectiveness of regulatory program activities and to report results.

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Chapter 27

Canadian Nuclear Safety Commission

Power Reactor Regulation

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	27-5
Introduction	27-7
Focus of the audit	27-8
Observations and Recommendations	27-9
Risk Analysis and Performance Assessment	27-9
A need to improve risk analysis and assessment of licensee performance	27-9
Compliance and Enforcement Framework	27-11
Development of the compliance and enforcement framework has not been completed	27-11
Human Resource Management	27-12
Human resource capacity is critical to success	27-12
Recruitment and staffing strategies needed	27-13
Succession planning is a priority	27-14
Roles and accountabilities need to be clarified	27-14
Conclusion	27-15
About the Audit	27-16
Exhibits	
27.1 Nuclear Power Stations Regulated by the Canadian Nuclear Safety Commission	27-8
27.2 How a Canadian Power Reactor Works	27-9

Canadian Nuclear Safety Commission

Power Reactor Regulation

Main Points

27.1 The Canadian Nuclear Safety Commission (CNSC) needs to improve its regulatory regime for power reactors to ensure that it continues to protect the health and safety of Canadians.

27.2 While the CNSC continuously monitors the compliance of power reactor licensees with regulatory requirements, its regulatory activities are not based on a rigorous, well-documented system of risk analysis and the ratings it assigns for regulatory performance (acceptable, conditionally acceptable or unacceptable) are not clear. In addition, CNSC's compliance and enforcement system is not yet complete. As a result, it cannot adequately demonstrate that it is achieving its safety objectives for the regulation of power reactors.

27.3 Like other nuclear regulators, CNSC faces significant difficulties in recruiting and retaining qualified staff. Combined with its current regulatory regime, which relies heavily on the expertise and judgment of staff, the lack of human resource capacity could impact its ability to function adequately in the future.

Background and other observations

27.4 The *Nuclear Safety and Control Act* came into force on 31 May 2000. It created the Canadian Nuclear Safety Commission to replace the Atomic Energy Control Board. CNSC is responsible for regulating the use of nuclear energy in Canada to protect health, safety, security and the environment. Our audit focussed on the regulatory activities related to power reactor licensing and regulation.

27.5 The CNSC has 440 staff. Its headquarters are in Ottawa. It maintains a site project office at each of the power reactor stations, where its staff monitor licensee compliance with regulations and the licence conditions. In fiscal year 2000, CNSC had total costs of $59 million.

27.6 In July 1999, of some 440 power reactors in the world, 22 were in Canada — 20 in Ontario, one in Quebec and one in New Brunswick. There were 104 power reactors in the United States.

The Canadian Nuclear Safety Commission agrees with our recommendations and is taking action to address them.

Introduction

27.7 The *Nuclear Safety and Control Act* was passed in 1997 and came into force on 31 May 2000. It created the Canadian Nuclear Safety Commission (CNSC) to replace the Atomic Energy Control Board (AECB). For ease of reference, we use only CNSC throughout the chapter, but any such reference in connection with events prior to 31 May 2000 implies the former AECB. Under the Act, the CNSC, like its predecessor, regulates the use of nuclear energy in Canada to protect health, safety, security and the environment. Its regulatory regime includes setting requirements for licensees to follow, assessing and evaluating licence applications, seeking compliance with its requirements, and taking enforcement action when necessary. The balance of emphasis among these activities and on the use of regulations, licences, or policies and standards to capture requirements varies with the risks involved, the nature of the business regulated, the CNSC's experience with its licensees, and international experience. This chapter discusses its licensing and regulation of power reactors. Exhibit 27.1 lists the nuclear power stations regulated by the Canadian Nuclear Safety Commission. In July 1999, of some 440 power reactors in the world, 22 were licensees of the CNSC — 20 in Ontario, one in Quebec and one in New Brunswick. There were 104 power reactors in the United States.

27.8 CNSC's regulatory program is based on the licence holder's having prime responsibility for the safety of the nuclear power station. The licensee must demonstrate to the CNSC that the nuclear power station can and will be operated safely throughout the licensing period. Consistent with this principle, the CNSC has produced general performance standards for nuclear power stations, in addition to the specific standards codified in the regulations and referenced in the licence. The licensee is responsible for translating the general standards into a detailed proposal that, once accepted by the CNSC, forms part of the licensing basis for the station. It also serves as the basis for future regulatory activities, such as approving changes and conducting audits and inspections of the nuclear facilities. This approach is consistent with international practice for nuclear safety.

27.9 The CNSC's position is that it will be prescriptive only when necessary; however, it has prepared detailed standards in some areas. For example, it has worked with the Canadian Standards Association to produce detailed standards of quality assurance and structural integrity for Canadian power reactors. It also participates in developing internationally accepted standards that are incorporated in regulations. These include standards for radiation protection and environmental protection.

27.10 A key element of the Canadian nuclear reactor safety philosophy is the concept of "defence-in-depth". This refers to the use of multiple barriers to reduce the risk of accidental release of radioactive material. Keeping the probability low that a system or component in the plant will fail during operation considerably reduces cumulative risk. The defence-in-depth principle also requires that procedures be in place to mitigate the consequences of accidents — for example, special safety systems incorporated in the plant design, and built-in redundancy for multiple ways of achieving the safety objective. Exhibit 27.2 demonstrates how a Canadian power reactor works.

27.11 Another internationally accepted safety principle that is fundamental to the regulation of Canada's nuclear power stations is to keep the associated risks to workers, the public, and the environment as low as reasonably achievable (ALARA), taking into account socio-economic factors. The intent is to ensure that the level of risk associated

The Canadian Nuclear Safety Commission (CNSC) replaced the Atomic Energy Control Board in May 2000.

CNSC's regulatory program is based on the licence holder's having prime responsibility for safety.

We focussed on the regulatory activities related to power reactors.

with Canada's older power reactors, built mostly in the 1970s and 1980s, is comparable with that of modern reactors.

Focus of the audit

27.12 Our audit focussed on the regulatory activities related to the licensing and regulation of power reactors. This area of the nuclear industry is the most complex to license and regulate and the one undergoing the greatest change. In Ontario, major changes are expected from deregulation, the introduction of competition in 2000, and private investment. The CNSC's responsibilities related to power reactor licensees account for approximately half of its costs. In fiscal year 2000, CNSC had 440 staff and its total costs were $59 million. Power reactors represent the CNSC's most significant responsibility, given the risks to public health and safety in the event of a major accident. In addition, certain

Exhibit 27.1

Nuclear Power Stations Regulated by the Canadian Nuclear Safety Commission



1. **Pickering Nuclear Generating Stations (NGS) A and B**
   Ontario Power Generation Inc.
   Pickering, Ontario
   Pickering hosts two nuclear generating stations, Pickering NGS-A and -B. Both stations consist of four CANDU Pressurized Heavy Water reactors, each with a capacity to produce 500 megawatts of electricity. Pickering NGS-A commenced operation in 1971 and is currently in an approved shutdown state. Pickering NGS-B commenced operation in 1982.

2. **Bruce Nuclear Generating Stations A and B**
   Ontario Power Generation Inc.
   Tiverton, Ontario
   Tiverton hosts two nuclear generating stations, Bruce NGS-A and -B. Bruce NGS-A consists of four CANDU Pressurized Heavy Water reactors, each with a capacity to produce 750 megawatts of electricity. The station commenced operation in 1976 and is currently in an approved shutdown state. Bruce NGS-B consists of four CANDU Pressurized Heavy Water reactors, each with a licensed capacity to produce 840 megawatts of electricity. This station commenced operation in 1984.

3. **Darlington Nuclear Generating Station**
   Ontario Power Generation Inc.
   Bowmanville, Ontario
   Darlington NGS consists of four CANDU Pressurized Heavy Water reactors, each with a licensed capacity to produce 850 megawatts of electricity. The station commenced operation in 1989.

4. **Gentilly-2 Nuclear Generating Station**
   Hydro-Québec
   Gentilly, Quebec
   Gentilly-2 NGS consists of one CANDU Pressurized Heavy Water reactor that has a licensed capacity to produce 600 megawatts of electricity. The station commenced operation in 1982.

5. **Point Lepreau Nuclear Generating Station**
   New Brunswick Power Corporation
   Point Lepreau, New Brunswick
   Point Lepreau NGS consists of one CANDU Pressurized Heavy Water reactor that has a licensed capacity to produce 600 megawatts of electricity. The station commenced operation in 1982.

Source: Canadian Nuclear Safety Commission, 2000



Pickering Nuclear Generating Station (see paragraph 27.12).

power reactor operators acknowledged in the mid-1990s certain difficulties with the management of their stations and operating units.

27.13 Our objectives in this audit were to examine whether the regulatory regime for power reactors was satisfactory to achieve its safety objectives and others. We also sought to identify factors or constraints that affect the development or implementation of regulatory regimes.

27.14 Further details on our audit objectives, scope and criteria are presented at the end of the chapter, in **About the Audit**.

Observations and Recommendations

Risk Analysis and Performance Assessment

A need to improve risk analysis and assessment of licensee performance

27.15 After issuing a licence, the CNSC reviews the safety of operating nuclear power plants on a continuous basis for

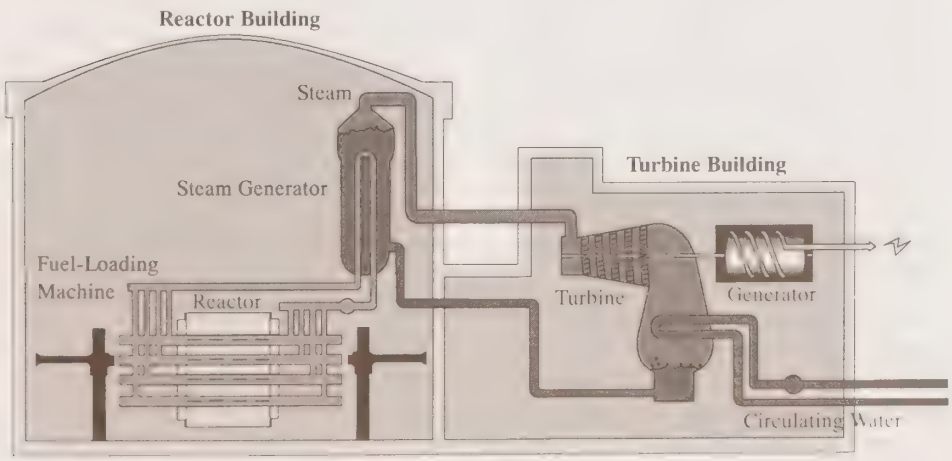


Exhibit 27.2

How a Canadian Power Reactor Works

Source: Canadian Nuclear Association

compliance with regulations, relevant regulatory documents, industry codes and standards, the terms of the licence, and station policies and procedures. The review process consists of a broad range of activities, including:

- annual reviews of station safety performance;
- compliance inspections;
- review of significant events reported by the licensee;
- approval of proposed plant changes, both temporary and permanent;
- safety analyses;
- review of quality assurance;
- review of radiation protection programs and environmental impacts; and
- certification of operators and assessment of training programs.

After issuing a licence, CNSC reviews the safety of nuclear power plants on a continuous basis.

27.16 The CNSC maintains staff at site project offices at each of the power reactor stations to monitor the licensee's compliance with regulations and the licence conditions. The CNSC's safety review process focusses on obtaining assurance that the risk to the health and safety of the public and employees and the risk to the environment remain within the bounds of the licensing basis for the facility. In addition, specialists at CNSC headquarters in Ottawa review and verify, in co-operation with the CNSC's site staff, the quality and reliability of key reactor components and provisions such as safety analyses, radiation protection, operating performance, safety procedures, and management of the facilities. The review process is linked to a two-year licence renewal cycle and covers all areas of CNSC's regulatory requirements.

27.17 We expected that the CNSC would base its regulatory activities on an analysis of relevant risks, the results of previous regulatory activities, and a rigorous, well-documented process linking activities to required results. We expected that it would report its assessments of regulatory performance in a way that was clear and understandable to all stakeholders. We observed significant improvement since our last audit in 1994, as a result of recent changes in the CNSC's organization, including the creation of the power reactor evaluation division (PRED) responsible for managing the overall review of nuclear power facilities' safety performance. However, there are still areas that require improvement.

27.18 The CNSC does not use quantitative measures to rate nuclear power facilities. It is aware that the industry is making extensive use of nuclear power plant performance measures, including safety-related indicators, and it is testing and refining its own recently developed set of safety performance indicators. While a few other CNSC divisions have developed formal approaches to risk analysis as a basis for proposed regulatory activity, divisions involved in power reactor regulatory work have used an intuitive approach, relying on the judgment and expertise of staff. However, safety performance indicators along with that judgment and expertise are not yet applied in any systematic, integrated way to determine the nature or level of work to be performed. Without this type of analysis, CNSC cannot demonstrate whether it is doing enough work in any area or too much, and whether it is overstaffed or understaffed.

Without a systematic analysis, CNSC cannot demonstrate whether it is doing enough work in any area or too much work.

27.19 In its licensing reports, the CNSC assesses and categorizes various aspects of performance as "acceptable", "conditionally acceptable", or "unacceptable". In addition, it provides an overall qualitative assessment of the licensee's performance along with a recommendation on whether the licence should be renewed.

27.20 The CNSC's approach to reporting on licensee performance is a significant improvement over the past

practice of reporting only exceptions. It now features a standardized reporting framework, more balanced reporting, evidence to support the assessment, and an evaluation of performance that includes the views of all of the divisions involved in power reactor regulation. However, the criteria for what is acceptable or unacceptable are subjective, which can lead to lack of understanding and agreement, both within CNSC and between CNSC and licensees, on the adequacy of safety performance.

27.21 The rating "conditionally acceptable" does not clarify whether and to what degree safety is being managed properly and the licensee's action plans and progress are satisfactory. In addition, when, for example, there are 30 issues that are rated "conditionally acceptable", there is no mechanism for ranking them according to risk or integrating them to provide an overall perspective on the safety performance of a plant.

27.22 Any system of assessing licensee performance will always require the use of judgment, whether the system is qualitative, involves quantitative measurement, or combines both. Further clarification and possible expansion of the three performance ratings would improve the consistency of interpretation. In addition, clearly defined ratings would lead to more efficient communication among licensees, the CNSC, the public, and other stakeholders.

27.23 The Canadian Nuclear Safety Commission (CNSC) should implement a quantifiable rating of safety performance, taking into account the safety-related portion of other systems used in the industry, and should use this rating, along with a more rigorous and integrated risk assessment and other qualitative information, to systematically determine the level and type of regulatory effort required. CNSC should also clarify the meaning of its performance ratings ("acceptable", "conditionally acceptable" and "unacceptable") and better integrate its findings to ensure that a licensee's overall performance is clearly understood and communicated.

CNSC's response: *The CNSC undertakes the regulation of safety performance by committing to a comprehensive program of regulatory oversight activities. The CNSC agrees that quantifiable ratings of licensee performance could, as part of an integrated risk assessment process, support the determination of priorities, and the level and type of regulatory effort that is deployed for different regulatory activities. The CNSC will evaluate options for such approaches.*

The CNSC agrees that rankings of "acceptable", "conditionally acceptable", and "unacceptable" need to be clarified to enable consistent application and effective communication of licensees' overall safety performance. A review of the use of these rankings has already been initiated with a target for completion by fall 2000.

Criteria for what is acceptable or unacceptable are subjective and can lead to a lack of understanding.

Compliance and Enforcement Framework

Development of the compliance and enforcement framework has not been completed

27.24 After Parliament passed the *Nuclear Safety and Control Act* in 1997, the CNSC made considerable progress in revising some regulatory documents and developing new regulations that would be needed when the Act came into force. However, management acknowledged that uncertainty as to when this would happen contributed to delays in completing other regulatory documents. As well, a requirement for extensive consultation with the nuclear industry, changes in responsibilities affecting some federal and provincial bodies, and a difficult clearance process all added to the delay. Now that the *Act* is in effect, regulatory documents such as standards, policies and guides are

About 50 more guidance documents are required for power reactor regulation.

needed to clearly explain the CNSC's regulatory requirements to staff, licensees and the public. Eight major regulatory documents that set out regulatory expectations for nuclear power plants have been carried over from the old regime, but the CNSC has determined that it needs about 50 more documents for licensees as well as important additional guidance for staff. These documents are at various stages of development.

27.25 Both managers at the licensed nuclear facilities and staff of the CNSC, particularly those at site project offices, have asked that the CNSC give high priority to completing regulatory documents and communicate the new expectations clearly, particularly for the compliance program. To make the regulatory system transparent and effective, licensees need a clear understanding of the regulatory requirements, the processes for monitoring compliance, and the rules of enforcement.

A 1998 internal audit found that compliance inspections, enforcement and follow-up activities adhere to established practices.

27.26 A 1998 internal audit of compliance inspection, enforcement and follow-up activities found that they generally adhere to established practices and procedure. CNSC staff have identified instances of non-compliance with licensing conditions and followed up on them. However, the audit also found inconsistencies within and among divisions. New project officers or inspectors sometimes use standards different from those used by previous staff (either higher or lower), or different methods of obtaining assurance that licence conditions are met. Typically, the differences in obtaining assurance are a matter of whether or not an inspector relies on licensee systems and procedures.

Compliance and enforcement policy and programs to ensure consistency have not yet been implemented.

27.27 The internal audit recommended that CNSC's Executive Committee develop and approve a compliance program policy that would be implemented consistently across the organization. Such a policy was approved in early 2000 and a plan developed to implement it. In the first of four phases, a training workshop on the development of compliance programs was held in May 2000. The compliance and enforcement policy and programs are designed to identify regulatory requirements and communicate them to licensees, and also to ensure that compliance and enforcement are applied consistently and effectively across the CNSC. According to CNSC, this should lead to a more results-based and systematic approach, taking into account a licensee's past compliance history when deciding whether to increase or decrease the level of scrutiny.

27.28 To ensure that its regulations are transparent and predictable to staff, licensees and the public, the CNSC should, with all due haste, finish developing the regulatory documents that set out the requirements by which licensees will be assessed. It should also implement its compliance and enforcement policy.

CNSC's response: *The CNSC agrees that there is a need to accelerate the development of a number of regulatory policies, standards and guides. Specific objectives for this work are set out in the CNSC's Strategic Plan 2000. To achieve ordered progress in this area, senior staff members have been taken off-line and assigned full time to the development of the regulatory framework, and a committee has been set up to establish the priorities for work on regulatory documents. Among the activities that are already in progress is a comprehensive program that is dedicated to the implementation of the compliance and enforcement policy.*

Human Resource Management

Human resource capacity is critical to success

27.29 From the early years of the CNSC, the combination of its small size and its growing technological complexity

fostered the evolution of an informal organizational structure and related regulatory processes. The CNSC adopted a non-prescriptive approach to regulation, relying on the competence and professional judgment of its growing complement of knowledgeable staff.

27.30 As its staff increased from 50 in the early 1970s to about 440 today, the CNSC was successful in attracting suitably qualified scientists and engineers from industry to its expanding organization. However, its approach to regulation continued to be non-prescriptive and relied heavily on the knowledge and competence that its staff had gained earlier in their careers. In the 1990s, it became clear that this pool of expertise would begin to disappear as experienced staff moved closer to retirement eligibility. Given the shrinking pool of external expertise and an increasingly competitive market for talent, it was obvious that the CNSC would need to make major adjustments to the management environment.

27.31 Beginning in 1995, several project teams were formed to identify areas for management improvement. This initiative later became known as Project '96 and resulted in about 400 recommendations, which included 110 recommendations for improving human resource management, including training. Since 1997, the Human Resources Management Division has set a number of priorities for development or revision of human resource policies and practices in the CNSC as well as their formal documentation. The most important included a new classification standard and related salary structure; competency profiles and statements of roles and responsibilities for all levels of management; and approval of an annual training strategy. While this represents a significant step forward, there are still significant issues that need to be addressed.

27.32 CNSC is exempt from the *Public Service Employment Act* and can therefore develop and apply its own recruitment policies and practices. Similarly, it has authority to design and implement job classification and compensation programs distinct from those of the public service.

Recruitment and staffing strategies needed

CNSC relies heavily on the knowledge and competence of its staff.

27.33 Like other federal regulatory organizations and nuclear regulators in other countries, CNSC faces difficulties in recruiting scientific and technical staff. At May 2000 the organization had 54 vacant positions — 29 in the power reactor business line. Some positions have been vacant for more than a year, and vacancies of 3 to 10 months are common. As an example, during the past year there were seven vacant positions for inspectors. Although the CNSC's recruiting efforts generated 351 applications, the five offers it made were rejected. Five positions have since been filled through redeployment; two remain vacant. In fiscal year 2000 there were 28 new staff hired, and 16 internal moves took place within the power reactor business line.

The 8 percent vacancy rate in the power reactor business line and the lengthy time required to fill vacancies have a significant impact.

27.34 The CNSC has streamlined its processes, initiated some new recruiting activities, and developed other means to help retain staff, such as policies for retention bonuses and career development and training programs. However, it has not developed a formal recruiting strategy and action plan to give priority and direction to its efforts at filling the technical and other staff vacancies. The present vacancy rate (about 12 percent overall; 8 percent in the power reactor regulation business line) and the lengthy periods of vacancies in technical positions have a significant impact, in our view, on the CNSC's ability to effectively inspect and regulate the nuclear industry, despite management's efforts to reduce that impact. Some key areas are understaffed at a time when the workload is particularly heavy. The lack of staff has contributed to delays in

completing plans for relicensing some power reactor plants.

27.35 CNSC needs to develop a formal recruitment strategy and action plan to overcome the deficit in staff and ensure that the organization possesses the skills and expertise to fulfil its mandate.

Succession planning is a priority

Of 74 managers, 31 could elect to retire within the next five years.

27.36 The employee population in the CNSC is aging: according to data provided by CNSC, at April 1999 the average age was 45 years, identical to the public sector regulatory/inspection community but higher than the general public service population at 42 years. Also, 31 of 74 managers could choose to retire within the next five years.

27.37 Depending on how many retire, the CNSC could face not only loss of leadership but also loss of the high-level expertise that the current group of executive managers and other senior staff have acquired over many years, including experience with the industry. Moreover, the potential attrition by retirement at other levels across the organization heightens the need for a formal recruitment strategy and action plan that takes full account of the future staff needs resulting from attrition.

At the time of our audit, roles and accountabilities of site project offices and headquarters technical specialists were not clear.

27.38 Succession planning was identified as a priority in the 1999–2000 human resources program and was split into phases. The first phase identified a talent pool for director-level positions. The next phase was scheduled for fall 2000 and would target the management level immediately below.

27.39 We encourage the CNSC to continue its succession planning efforts and complete its strategy and action plan for recruitment, based on historical and potential attrition rates.

27.40 The CNSC should develop a human resource planning process that profiles present internal resources and forecasted needs, identifies historical, present and potential attrition rates, and assesses the implications of various policies on the distribution and movement of employees. It should update the human resource plan regularly and link it to the maintenance and administration of a formal plan for recruitment.

CNSC's response: The CNSC recognizes that in the past, human resources planning may not have been conducted as rigorously as it should have been. The CNSC agrees with the intent of the recommendation and has already put into place a human resources planning process. The CNSC believes that its Strategic Plan has been very clear on this point, and it will endeavour to strengthen linkages between the strategic, corporate and budget planning processes and the human resources plan.

Roles and accountabilities need to be clarified

27.41 Until 1998, the CNSC was structured in such a way that the site project office at each nuclear power reactor site co-ordinated much of the regulatory activity related to planning and conducting evaluations of performance of power reactor facilities. In January 1998, the CNSC initiated changes to improve its planning, integration, and reporting of regulatory activities related to the licencing of power reactors. A new division was formed to manage the review of reactor facility design, construction, operation, and maintenance; integrate the information generated by all relevant CNSC activities; and advise senior management and the members of the Commission on the overall performance of each nuclear facility.

27.42 At the time of our audit, the respective roles and accountabilities of the site project offices and the headquarters technical specialists were not clearly defined and understood. For example, the staff at site project offices are unclear on who is responsible for taking the lead on

specific issues. In the absence of clear accountability, assumption of the lead role is often ad hoc, and various groups play a role in evaluation and assessment. The lack of a clear understanding and effective implementation of the centralized approach to planning and reporting has allowed for the fragmenting of accountabilities and made it difficult to reach consensus on the overall level of safety at each nuclear facility.

27.43 The CNSC comprises five members of the Commission, including the President, appointed by the Governor in Council. The President is the chief executive officer and directs the work of both the members of the Commission and CNSC staff. The President chairs meetings of the members of the Commission. Many of the people we interviewed noted that senior management is responsible for developing regulatory philosophy and documents, but has had difficulty dealing with key issues. This has led to long delays in implementing change. Others we interviewed cited a lack of understanding between members of the Commission and CNSC staff on some regulatory issues.

27.44 While there is a need to maintain the regulatory independence between the staff and members of the Commission, we believe that clarifying roles and accountabilities by separating the position of chair of the meetings of members of the Commission from that of chief executive officer could improve the efficiency of the CNSC's operations and help it to demonstrate its effectiveness.

27.45 The CNSC should clarify the roles and accountabilities for planning and integrating regulatory activities and reporting on licensee performance, and communicate them internally and to licensees. In addition, it should consider separating the role of chair from that of chief executive officer.

CNSC's response: *The CNSC agrees that, to improve accountability and regulatory effectiveness, effort is needed to improve the implementation of the roles and responsibilities for planning and integrating regulatory activities and reporting on licensee performance. A review of roles and responsibilities has been planned. It will be followed by action to communicate and manage implementation of the resultant responsibility framework. The separation of chair and CEO is not our preferred solution to some of the issues raised. However, we will take it into consideration in addition to other options.*

Separating the position of chair from that of chief executive officer could improve CNSC's operations.

Conclusion

27.46 The public places a high reliance on the regulator of nuclear power facilities, and the CNSC is committed to operating in an open and transparent fashion. In our view, if CNSC strengthens its risk analysis and assessment, completes the changes it has begun in compliance and enforcement, and takes steps to ensure that it has the human resource capacity it will need in the future, the regulatory regime for power reactors will be designed, structured, organized and implemented to achieve its safety objective and other objectives.

About the Audit

Objectives

Our objectives for the audit were to:

- assess whether the regulatory regime for power reactors has been satisfactorily designed, structured, organized and implemented to achieve its safety and other objectives, for example, cost recovery; and
- identify factors or constraints that affect the development or implementation of regulatory regimes. These may include delays in legislative changes, overlaps with provincial jurisdictions, downsizing, and the effects of international harmonization of regulatory approaches.

Scope and Approach

We conducted structured interviews with 88 people, including senior executives in CNSC and industry. We visited three licensees at four plant sites and also visited the Nuclear Installations Inspectorate in the United Kingdom. In addition, we reviewed more than 250 documents. Our audit was conducted between October 1999 and July 2000.

Criteria

With respect to the audit objectives, we assessed the regulatory regime for power reactors against the following audit criteria.

Regulatory programs should be designed, organized and implemented based on:

- a comprehensive analysis of health and safety risks and sufficient staff, expertise and resources;
- a comprehensive analysis of alternative regulatory regimes to address identified risks, including an assessment of the capabilities of industry and government, consultations with stakeholders, costs and benefits, and policies for maintaining transparency and public access to information;
- a clear statement of the respective responsibilities of government, industry and other parties and ongoing consultations with stakeholders;
- a clear statement of guiding ethical principles and a conflict-of-interest policy;
- clear and comprehensive performance objectives or goals for each of the areas subject to regulation;
- clearly defined key performance data, specifications for measurement procedures and data to be used, and clear policies for government to have timely and unimpeded access to all necessary data;
- clear policies for the establishment of cost-recovery or regulatory fees;
- clear policies and procedures for ensuring compliance and enforcement of Canadian laws and international standards (to which CNSC has agreed), for resolving complaints and for reporting and remedying regulatory failures, including any penalties that may be imposed;
- effective departmental accountability and review structures, for example, audit, evaluation, performance measurement, complaint resolution, that are consistent with the regulatory approach adopted; and
- clear, accurate, comprehensive and timely reporting to management and Parliament on the relevance of regulations, their effectiveness, and the cost of the programs.

Audit Team

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Chapter 28

Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

	Page
Main Points	28-5
Introduction	28-7
Agriculture and Agri-Food Canada — Animal and Plant Health: Inspection and Regulation — 1996, Chapter 9	28-8
Transport Canada — The Commercialization of the Air Navigation System — 1997, Chapter 19	28-10
National Energy Board — 1998, Chapter 13	28-13

Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

Main Points

28.1 This chapter presents our follow-up of three previously reported audits of federal health and safety regulatory programs. The Animal and Plant Health segment is a further follow-up to that reported in Chapter 28 of our 1998 Report.

28.2 Since our 1996 audit on animal and plant health, a number of initiatives have been undertaken within the Canadian Food Inspection Agency to address our recommendations concerning the assessment of risk and alternative service delivery; however, work remains to be done. Because many of our recommendations were long-term in nature, we did not yet expect their implementation to be complete. Progress is satisfactory, except in several specific areas.

28.3 Transport Canada has made satisfactory progress in the areas of risk analysis and audit and inspection. However, it has still not conducted or planned any formal review of the quality of Civil Aviation Daily Occurrence Reporting System (CADORS) data or any other safety performance data regularly supplied to it by NAV CANADA. The Department also has not yet established a formal process to reconcile the data it receives from NAV CANADA with the data from the Transportation Safety Board's incident-reporting system to ensure completeness.

28.4 The National Energy Board has made a good effort to meet its commitments and implement the recommendations. Progress has been slower than anticipated in some areas but is on track for full implementation in the near future. The Board has taken the tasks seriously and assigned senior staff to ensure successful completion.

Introduction

28.5 It is our policy to make recommendations in all of our audits that are oriented toward correcting problems and improving the management of government. We encourage management of the entities that we audit to respond to us in writing, stating whether they agree with our recommendations, and indicating the corrective action they plan to implement. We, in turn, publish their responses in our report to inform Parliament and the public.

28.6 Approximately two years after the initial audit, we return to determine what action has been taken by the entity toward implementing corrective action. This work forms the basis of our follow-up report.

28.7 Apart from a few unique situations, a follow-up is not a second audit of the same issues. Rather it is a report on what management tells us, or can demonstrate to us, about the progress it has made toward meeting our recommendations since our initial report on the subject. We do not exhaustively seek or examine additional evidence to support or refute what management has told us, but we do review its claims for reasonableness and report to Parliament accordingly.

28.8 This chapter presents our follow-up of three previously reported audits of federal health and safety regulatory programs. The Animal and Plant Health segment is a further follow-up to that reported in Chapter 28 of our 1998 Report. The remainder of our follow-up report is in Chapter 33 of this report.

Agriculture and Agri-Food Canada — Animal and Plant Health: Inspection and Regulation — 1996, Chapter 9

Assistant Auditor General: Doug Timmins
Principal: Neil Maxwell

Background

28.9 In our 1996 Report, we made a number of observations and recommendations on the animal and plant health programs of Agriculture and Agri-Food Canada. They focussed on program delivery and design, performance measurement, and cost recovery, avoidance and reduction initiatives.

28.10 In 1997, the animal and plant health programs, along with the food and fish inspection activities of Agriculture and Agri-Food Canada, Health Canada and Fisheries and Oceans, were consolidated into the Canadian Food Inspection Agency.

28.11 In our 1998 follow-up, we reported on the status of our 1996 recommendations.

Progress is satisfactory, except in several specific areas.

Scope

28.12 Our 2000 follow-up work was conducted as part of the Office's examination of federal health and safety regulatory programs (see Chapter 24 of this Report). We focussed on two issues from our 1996 audit and 1998 follow-up that are examined in Chapter 24 — assessment of risk and alternative service delivery. We interviewed officials from the Canadian Food Inspection Agency and Health Canada and reviewed supporting documentation provided to us.

Conclusion

28.13 Since our 1996 Report, a number of initiatives have been undertaken to address our recommendations concerning the assessment of risk and alternative service delivery; however, work remains to be done. Because many of our recommendations were long-term in nature, we did not yet expect their implementation to be complete. Progress is satisfactory, except in several specific areas.

Observations

Assessment of risk

28.14 In our 1996 chapter, we noted that a risk assessment process had been developed; however, it focussed on imports, not on domestic health threats, regulated diseases, weeds and toxic substances. We recommended several improvements in both information gathering and assessment of information. We also recommended more effective use of risk assessments in determining program-wide priorities and allocating resources to higher-risk areas.

28.15 In this follow-up, we found that the Agency has improved its information gathering by enhancing surveillance activities and incorporating the resulting information into the risk assessment process. The Agency has broadened its risk assessment focus beyond imports and conducts a large number of animal and plant health risk assessments annually.

28.16 The Agency is making satisfactory progress toward addressing our 1996 audit concerns, with the following exceptions:

- Little progress has yet been made in assessing the risks of weeds and toxic substances; however, plans exist to address these issues in the near future.
- The Agency has attempted to develop a risk-based resourcing process,

but so far without success. This issue is discussed further in our audit of food inspection at the Canadian Food Inspection Agency (see Chapter 25 of this Report). We did note, however, a number of cases within the animal and plant health programs where the Agency has reallocated resources based on risk.

Alternative service delivery

28.17 Our 1996 Report noted that the increasing use of alternative service delivery mechanisms meant that systems to monitor and control these activities would become more important.

28.18 Our 1998 follow-up concluded that because monitoring and control activities were relatively new, their success was not yet known.

28.19 In this follow-up, we examined five major areas where alternative service delivery mechanisms are in place. We concluded that satisfactory progress in establishing monitoring and control activities is being made in four of the five areas.

28.20 Considerable attention has been paid to monitoring and controlling compliance in the areas of greenhouse certification, nursery certification, accreditation of the Canadian Seeds Institute, and accreditation of external laboratories. Frameworks are in place that define the responsibilities of Agency staff and outside parties. They describe the methods to be used by regional staff to monitor and control activities of outside parties, and by headquarters staff to manage and control the national programs. The key monitoring and control activities set out in the frameworks are taking place.

28.21 In the area of accreditation of veterinarians, we found deficiencies in mechanisms at the national level. A framework is in place, but key monitoring and control mechanisms are still being implemented.

In the area of accreditation of veterinarians, we found deficiencies in monitoring and control mechanisms at the national level.

28.22 Alternative service delivery mechanisms are relatively new. Effective controls for these mechanisms are needed — controls that strike a balance between too little and too much control. For this reason, we believe that the Agency's senior management needs to regularly review monitoring and control activities.

Transport Canada — The Commercialization of the Air Navigation System — 1997, Chapter 19

Assistant Auditor General: David Rattray
Principal: Hugh McRoberts

Background

28.23 In November 1996, Transport Canada transferred the assets and operation of the Air Navigation System to NAV CANADA, a not-for-profit corporation created for that purpose. The Department retained its responsibility for regulating and overseeing the safety of air navigation services in Canada.

28.24 In 1997 we audited the Commercialization of the Air Navigation System (ANS) and reported our observations and recommendations in our October 1997 Report, Chapter 19. This year we conducted a follow-up as part of the audit of the Federal Health and Safety Regulatory Programs to determine the progress made by the Department since our last audit. Our follow-up dealt specifically with the Regulation of Safety.

Scope

28.25 The scope of our review was restricted to identifying and analyzing the changes that have occurred since the end of our 1997 audit. We limited our work to reviewing documents, including management's representations, and discussing them with management. While we assessed the materials for reasonableness and consistency, we did not seek independent corroborative evidence to verify the information in those documents.

Conclusion

28.26 The Department has made satisfactory progress in the areas of risk analysis and audit and inspection. However, it has still not conducted or planned any formal review of the quality of Civil Aviation Daily Occurrence Reporting System (CADORS) data or any other safety performance data regularly supplied to it by NAV CANADA. The Department also has not yet established a formal process to reconcile the data it receives from NAV CANADA with the data from the Transportation Safety Board's incident-reporting system to ensure completeness.

Transport Canada has made satisfactory progress in the areas of risk analysis and audit and inspection, but not in review of quality of safety data and assurance of completeness of data.

Observations

Need for risk analysis

28.27 In 1997 we highlighted the need for systematic and quantitative analysis of risks as well as the importance of methodology and staff training.

28.28 Overall, the Department has made satisfactory progress in this area. It has established a policy (TP 13095) for the systematic management of risk that prescribes the application of "Q850", the Canadian Standards Association (CSA) decision-making process, as a standard methodology. About 85 percent of the Air Navigation Services and Airspace inspectors have been trained in the Q850 methodology. The Air Navigation Services and Airspace Branch has stated that close to 100 percent of its inspectors will have taken this training by the end of fiscal year 2000-01. The Department's Manual of Aeronautical Studies (TP 13011) requires that Q850 be applied in the conduct of the Department's aeronautical safety studies.

Standards for air traffic control

28.29 In 1997 we observed that automated systems for air traffic control

did not appear to be subject to any regulation.

28.30 This situation has not materially changed as the Department has not developed domestic standards for automated systems. The Department has indicated that it has taken some initiatives but has not achieved the desired progress. It is awaiting direction from the International Civil Aviation Organization (ICAO), whose progress in this area has been very slow, according to the Department, because of difficulty in international harmonization. The Department believes that ICAO and its member states have not supported the safety case for including automated Air Traffic Management (ATM) systems in the international standards. A technical specialist of the Air Navigation Services and Airspace Branch participates in the Radio Technical Commission for the Aeronautics (RTCA) Special Committee 189, Air Traffic Services Safety and Interoperability Requirements. The committee works jointly with the European Organization for Civil Aviation Equipment (EUROCAE) Working Group (WG-53) to define safety objectives and interoperability requirements for the Air Traffic Services (ATS) aircraft interface.

Transport Canada has not developed domestic standards for automated systems.

Reporting on performance of the ANS

28.31 In 1997 we stated that the requirement that NAV CANADA report in accordance with the CADORS manual should provide for the timely reporting of key data. We also stated that the Department needed to establish a means whereby it could gain assurance that the CADORS reports it receives from NAV CANADA are complete. We observed that the Department had neither planned nor conducted any audits to verify the quality of the data supplied by NAV CANADA.

28.32 The Department has stated that it continues to obtain key safety data from NAV CANADA regularly, in accordance with the requirements of the CADORS manual, and that it now receives CADORS reports from NAV CANADA in a timely manner. The Department also continues informally to compare the reports it receives from NAV CANADA with data from the incident-reporting system operated by the Transportation Safety Board (TSB) of Canada; however, it has still not established a proper reconciliation process. In addition, the Department has not conducted or planned any formal review of the quality of CADORS data or any other safety performance data regularly supplied to it by NAV CANADA. The Department has informed us that "indirect verification" of the data quality is accomplished through regulatory inspections, audits and investigations.

28.33 The incident rate for losses of separation (the spacing required between aircraft) is a primary indicator of safety performance for an air navigation service provider. To be useful for both management and accountability purposes, it is critical that these data be both timely and correct. We would expect that by now the Department would have established a basis for reconciliation of the CADORS reports with the Transportation Safety Board system. Further, because of the importance of these data, we would expect that the Department's audit regime for NAV CANADA would include tests of the completeness and accuracy of CADORS reports by reference to primary sources (radar and voice tapes). In one other jurisdiction where such tests have been carried out, officials have found that self-reporting systems tend to understate the occurrence of incidents.

Audit and inspections of safety

28.34 In 1997 we observed that the Department had only limited audit plans to conduct site manual validations. It had also not yet done any safety audits of NAV CANADA and had not conducted audits or inspections of NAV CANADA's operations.

28.35 The Department started its first audit and inspection activities in August 1997. To date, the Air Navigation Services and Airspace Branch has completed over 150 audits and inspections, identifying 130 findings and observations. The Department also plans a comprehensive audit of NAV CANADA's Safety Management System, to be completed by the end of calendar year 2000. Future audit and inspection activities will be carried out in accordance with the Air Navigation Services and Airspace Branch's policy on frequency of inspections based on triggers and risk.

Aeronautical studies are conducted for all proposed changes to the levels of service in air navigation.

Safe delivery of air navigation services

28.36 In 1997 we observed that the Department had some distance to go before it had in place a fully functioning regulatory regime for NAV CANADA. We noted that there were important matters of risk, data, and audit and inspection that must be resolved before the regime could be said to be fully operating. We also noted that significant progress was needed in implementing the key elements of the performance-based regulatory regime. Until this was achieved, the Department would not be in a position to have full assurance on NAV CANADA's operational compliance with the requirements of the Canadian Aviation Regulations and ICAO standards.

28.37 The Department has stated that it is moving to develop additional regulations and standards covering simultaneous instrument runway operations, which will also apply to air carriers and aerodrome operators. It is also developing standards for safety management systems of all service providers and making significant additions to section 801.

28.38 The Department believes that substantial progress has been made in developing a comprehensive manual of policies and procedures for the program, improving data capture and analysis, establishing an effective joint Transport Canada/NAV CANADA Safety Oversight Committee and related working groups, conducting numerous aeronautical studies and taking action in response to emerging issues.

28.39 The Department has stated that NAV CANADA has fully complied to date with the regulatory requirements governing the establishment of a safety management program. Under a formal agreement between NAV CANADA and the Department (the safety charter), aeronautical studies are conducted for all proposed changes to the levels of service in air navigation.

28.40 The Department believes that almost four years after the commercialization of the Air Navigation System, the air navigation safety net is stronger than ever. The Department believes that by separating its former roles of both a safety regulator and service provider, it can now better concentrate on its role as a regulator. Accordingly, NAV CANADA (the service provider) can focus its efforts on providing air navigation services under its own safety management system while providing key safety performance information to Transport Canada. The Department has stated that the requirement for NAV CANADA to maintain a significant level of insurance coverage worldwide adds another level of safety assurance through the underwriters' role in managing risk.

National Energy Board — 1998, Chapter 13

Assistant Auditor General: Ronald C. Thompson
Principal: Roger Simpson

Background

28.41 The National Energy Board (the Board) has the responsibility to regulate Canadian pipelines and electrical transmission lines that cross provincial or international borders. Most of its activities deal with international and interprovincial oil and gas pipelines and exports.

28.42 In our September 1998 Report, we noted that:

- the Board had changed its operation significantly but not its enabling legislation;
- the Canadian pipeline system was aging, thus posing potential threats to public safety and the environment;
- the Board's environmental inspection program contained shortfalls;
- the Board's cost recovery philosophy and methods were in need of renewal; and
- the Board's results-based management process needed improvement.

Scope

28.43 Our 1998 Report, Chapter 13 contained seven recommendations. This follow-up provides further information on the actions taken by the Board to address our recommendations, and on any further work still to be done. We have reviewed the information provided by the Board and discussed it with senior Board staff, but we have not audited the information.

Conclusion

28.44 The Board has made a good effort to meet its commitments and implement the recommendations. Progress has been slower than anticipated in some areas but is on track for full implementation of recommendations in the near future. The Board has taken the tasks seriously and assigned senior staff to ensure successful completion.

Observations

28.45 Exhibit 28.1 lists the 1998 recommendations and the actions taken, expected results or benefits to be achieved, and whether or not the implementation process is complete. Where recommendations have been completed to our satisfaction, we have made no further comments. Where items are still in progress, we have added relevant comments.

Incidents database

28.46 In 1998 we recommended that the National Energy Board improve its incident database. Since then, the Board has made some progress in meeting its goal to complete this by December 1999; however, there was some slippage due to Year 2000 priorities and the need for an industry-wide common data dictionary, which is being developed by a third party. The data dictionary will not be ready until mid-2003.

28.47 The Board's incident database should be able to adopt the common data dictionary when it is ready. The Board intends to play a role in the dictionary's development. This would ensure that the Board's needs are addressed fully and that evolving results can be incorporated along the way. The second part of the recommendation on management of information has been completed.

An improved incident database will support pipeline safety and safety initiatives.

Exhibit 28.1

Status of Action Taken on 1998 Recommendations of the Auditor General (Chapter 13)

Office of the Auditor General Recommendations National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.34 The National Energy Board should: • **increase its capacity to analyze pipeline incidents by improving its database, including the sharing of data with other jurisdictions and other regulators; and** • **improve its management of information to ensure that recommendations arising from pipeline investigations are systematically followed up and that corrective measures taken are documented.** *National Energy Board response:* *The Board accepts the recommendation and will implement an internal database for the tracking of recommendations by 30 September 1998. The Board will develop an action plan by 30 October 1998 to improve its database for pipeline incidents, with a longer-term goal of having a database to be shared with other jurisdictions in place by December 1999. We will build on existing initiatives to ensure that the Board's needs and those of other regulatory agencies and the industry are met.*	**Pipeline Incident Database** The National Energy Board developed an action plan by 30 October 1998 to improve its database. The database is expected to be operational by 31 December 2000 to track pipeline incidents that occurred from 1994 to 2000. Implementation was delayed due to Year 2000 priorities. The need to develop a common data dictionary for the industry is required prior to sharing of an incident database with other jurisdictions. The Canadian Standards Association has agreed to develop the common data dictionary, with a target completion date by mid-2003. According to the Board, its incident database should be able to adopt the common data dictionary when it is ready. **Tracking of Incident Recommendations** The database for tracking recommendations was completed by 30 October 1998. As at 1 May 2000, the system had tracked 252 recommendations since 1992. Of these recommendations, 203 have been completed, and the remaining 49 have been scheduled for follow-up by the end of 2000. All corrective measures taken by the companies are documented and filed sequentially.	In Progress Completed	Improve risk management by assisting in the assessment of the probability of incident recurrence and the identification of key factors precipitating the incidents. Support pipeline safety and safety initiatives. Ensure that all the Board recommendations resulting from incident investigations are followed up systematically. Use resources better by multi-tasking field visits.
13.47 The National Energy Board should: • **determine its environmental information management needs and develop an appropriate system; and** • **ensure that all requirements associated with Board approvals are monitored systematically for compliance and to see if they are accomplishing the desired results.** *National Energy Board response:* *The Board accepts the recommendation and has expanded its existing compliance monitoring system to include all Board approvals of facilities. Although the recommendation is specific to environmental information management needs, we believe there is a significant benefit in the integration of the environmental and safety auditing programs. We will develop an action plan by 30 October 1998 for the complete review of our environmental and safety information needs and an action plan for the development of an appropriate information management system.*	**Environmental and Safety Information Management System (ESIM)** An action plan for ESIM was completed by 30 October 1998 and a detailed project plan was in place by March 1999. The Board has completed year one of the three-year project. Years two and three of the project will add enhancements to the system. When ESIM is completed, the Board will have spatial representations of all Board regulated facilities with the cumulative information on environment and safety. **Condition Tracking System** Board conditions relating to approval of facilities were tracked since 1998. This system will become a component of ESIM by incorporating all conditions starting in the year 2000.	Completed Completed	Ensure all environmental and safety requirements associated with Board approvals are tracked and monitored in an efficient manner. Evaluate the compliance and desired end results of the requirements.

Office of the Auditor General Recommendations/National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.58 The National Energy Board should: • **use a rigorous risk assessment methodology to determine the level of safety and environmental inspections and audits needed to fulfil its legislative responsibilities, and allocate its resources accordingly; and** • **formalize its environmental inspection procedures and strengthen its documentation practices.** *National Energy Board response:* *The Board accepts the recommendation and, as noted in the chapter, has a project under way to develop a risk assessment tool to assist in the allocation of resources to safety and environmental audits. The project will be completed by 30 November 1998. The Board will review all of its environmental and safety audit procedures and ensure that they are complete and in place by 31 December 1998. Adherence to procedures will be an emphasis of management. The Board will increase the resources allocated to its safety and environmental auditing program to replenish those resources lost through attrition or those resources diverted to handle the extremely high applications workload experienced in the past few years.*	A prototype Risk Prioritization Methodology was developed by 30 November 1998. The methodology was modified, using a semi-quantitative approach, and completed by 30 April 1999. A risk-based priority listing of all Board-regulated above-ground facilities was completed in September 1999. The Board will develop a risk prioritization model for pipeline integrity and for related environmental audit issues to be completed in 2000-01. The Board has reviewed and approved 13 safety and environmental procedures during 1999 and 2000. Additional procedures for pipeline crossing and emergency response will be developed. Team leaders are accountable for adherence to procedures that are reflected in the procedures and FOCUS process, a performance evaluation and development tool. The Board has increased the resources allocated to its safety and environmental audit program by hiring additional specialists.	In progress	Provide systematic assessment of safety and environment risks to better focus the inspection and audit efforts Provide capability to focus on risk areas identified for audits Document procedures to establish minimum requirements for audits and inspections.
13.70 The National Energy Board should ensure that its human resource management activities are clearly linked to its vision of the future and that its related projects are carried out in accordance with a systematic plan and in response to its operational needs. *National Energy Board response:* *The Board accepts the recommendation. In the fall of 1998, the Board will develop clearer context, strategies and expectations for performance. This will provide the environment within which human resource management activities can be more clearly linked to the Board's vision of the future and enable the development of a systematic human resource strategic plan. A human resource strategic plan will be in place by 1 April 1999.*	In November 1998, the Board developed a three-year strategic plan on which the 1999-2000 Report on Plans and Priorities was based. For 1999-2000, the FOCUS on Performance and Development, a performance evaluation and development tool, was linked to corporate goals through Business Unit and Teamwork plans. A human resource strategic plan was approved in July 1999. The purpose of the plan is to create the conditions required for the Board to attract and retain staff with the skills and orientation to meet the needs of the organization in the future. The Board is implementing initiatives arising from the human resource strategic plan.	Completed	Improve personal and organizational performance and help focus on results by better understanding of goals, strategies and expectations for performance. Create conditions required to attract and retain staff to meet the needs of the organization in the future.

Office of the Auditor General Recommendations National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.78 The National Energy Board should: • **recover its future costs in a more equitable and acceptable manner, to be developed in consultation with the regulated industry; and** • **develop a cost accounting system so it can identify the costs of processing applications and of other activities, for cost recovery and management purposes.** *National Energy Board response:* *The Board accepts the recommendations, and has already started negotiations with the cost recovery community for a complete review of all aspects of the cost recovery regulations. A recommendation for a new, more equitable methodology will be made by the second quarter of 1999-2000. Also, a review of the financial planning and reporting processes and a redesign of the management information systems are targeted for completion by the end of the fiscal year 1999-2000.*	**Recovery of Costs from the Regulated Industry** The Board and the Cost Recovery Liaison Committee (CRLC), representing the regulated industry, reached consensus that the industry is essentially satisfied with the current regulations and would prefer to make only moderate changes to address specific concerns. Those changes addressing the specific concerns are being prepared for formal submission to central agencies.	Completed	Reach and confirm consensus with industry on acceptable cost recovery of Board's future costs.
	Cost Accounting System The Board reviewed its financial planning and reporting process by June 1999. The redesign of the management information system will be implemented for 2000-01. The planned management information system will provide costs by corporate goals and related key activities through coding of operations and maintenance costs incurred. Cost of personnel by goals and activities will be accomplished by using Time Reporting System hours multiplied by average hourly rates for the teams. The results require significant manual calculation. Corporate Services will be reporting results quarterly starting June 2000.	Completed	Provide costing information by corporate goals and related key activities.
13.98 As it continues its efforts to manage for results, the National Energy Board should: • **improve the clarity of its expectations;** • **monitor its performance regularly and make adjustments as needed;** • **state clearly the results it has achieved and at what cost; and** • **designate a co-ordinator for each business unit to monitor key performance indicators.** *National Energy Board response:* *The Board accepts the recommendations. It recently hired a team leader for planning and reporting, who has started a review of financial planning and reporting processes and is designing a training program for users of the management information systems. A new individual performance management process called "FOCUS" was introduced in April 1998, and a strategic planning process will be started in September 1998. These are seen as critical first steps to both increase the individual's and the organization's performance and improve the processes to report on that performance.*	The Board has made progress in its 1998-99 and 1999-00 Report on Plans and Priorities. Each of the corporate goals is supported by objectives. Work on establishing stronger links with the objectives and measurements is continuing.	Completed	Provide useful performance reports for accountability purposes.
	The Board is continuing the development of various performance indicators. It expects the indicators developed will assist it to make adjustments as needed.	In progress	Adjust and focus the Board's efforts and resources to areas of need.
	The Board decided to report costs of corporate goals and key activities.	Completed	Improve accountability by reporting cost of corporate goals and related key activities.
	The ExTeam approved the proposal of setting up a Results, Planning & Reporting Working Group in its 16 October 1999 meeting. The group is headed by a representative of the Planning and Reporting Team with representation from each business unit. Its roles include the establishment of performance indicators. The Business Unit Leader is responsible for its business unit performance indicators. The Chief Operating Officer, assisted by the Corporate Services Planning Team, is the Board's Performance Report Coordinator.	Completed	Improve the processes to report on performance.

Office of the Auditor General Recommendations/National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.102 The National Energy Board should reinforce its audit and evaluation function and commission an evaluation. *National Energy Board response:* *While the Board was initiating a profound business transformation and reorganization over the last two years, it chose to limit the number of internal audit projects. Now that it has moved to the implementation of our vision and the rate of internally generated change has gone down, it agrees that it ought to reinforce our audit and evaluation function. The Board will adopt an explicit audit and evaluation program by 1 April 1999.* *The Board also agrees that the time has come for an evaluation of the program's effectiveness. It will consult with our stakeholders, including the policy arm of government, to determine the value of an evaluation of the program's continued relevance. We will undertake to determine the scope of the evaluation and its timetable by 1 April 1999.*	**Reinforce the Audit and Evaluation Function** The Board approved an Audit and Evaluation Multi-Year Plan for November 1998 to March 2001 on 18 November 1998. This plan is updated annually. The contract budget has also increased to reinforce the Audit and Evaluation function. During 1998–99 and 1999–00, the Audit Evaluation Unit completed nine reviews. **Evaluation of Effectiveness of the National Energy Board** In the summer of 1999, the Board engaged consultants to provide information, analysis and recommendations on the effectiveness of the Board's programs and services. The Board received the consultants' final report in March 2000. The report confirmed certain strengths and commented on opportunities for improvements. The Board will address the six key priority areas identified.	Completed Completed	Assist the Board and its management in monitoring the performance of programs and operations and compliance with policies. Provide an independent review of the Board program.

The National Energy Board reported that it has reviewed and approved 13 safety and environmental procedures to date and will develop additional ones dealing with pipeline crossing and emergency response.

Risk assessment

28.48 Another recommendation in 1998 called for the Board to develop rigorous risk assessment methodology to improve the safety and environmental inspections and audits. The Board accepted the recommendation and committed to a completion date of 31 December 1998. While it has made significant progress toward meeting this goal, it is not yet complete. The Board has completed work on above-ground facilities and is actively working on below-ground facilities, with an expected completion date of October 2000. Risk prioritization methodologies can be applied to above- and below-ground facilities.

28.49 The second part of the recommendation called for the Board to formalize its environmental inspection procedures and improve documentation. The Board reported that it has reviewed and approved 13 safety and environmental procedures to date and will develop additional ones dealing with pipeline crossing and emergency response. The Board has hired additional safety and environmental specialists.

28.50 The Board revised its related regulations (Onshore Pipeline Regulations) (OPR-99) in 1999 to make them less prescriptive and more goal-oriented. Goal-oriented regulation involves, among other things, requiring pipeline companies to adopt and record stringent maintenance procedures and to keep detailed records of what they do. With changes in technology, coupled with detailed maintenance, potential problem areas can be identified in time, and preventive measures taken to replace worn-out or other defective items.

28.51 The Board believes that the revised regulations will provide for additional flexibility and efficiency, timely adoption of improved operational and safety techniques, and increased emphasis on risk assessment and management systems. The regulations increased the focus on operations and maintenance activities and added a requirement for the regulated companies to conduct audits and inspections of their activities to ensure compliance.

28.52 The risks associated with each system or pipeline are unique. The new regulations require the companies to identify and address the specific risks of the systems. The adequacy and effectiveness of the methods employed by companies will be assessed through the Board audits. Because the new regulations are less prescriptive for how the company is to operate a safe pipeline, this may increase the related risks. The Board ensures that pipelines are safe by approving the construction and including conditions as required, reviewing safety and other manuals and programs, conducting inspections and audits, investigating incidents, making recommendations accordingly and following up on these conditions and recommendations.

28.53 While the Board continues to improve its systems and practices to perform these activities, we noted that it has not assessed the health and safety risks in making the regulations less prescriptive and whether these risks are adequately addressed and resources are used cost effectively.

Human resource management

28.54 The Board developed a three-year strategic plan that formed the foundation for human resource changes. Although the Board has met the milestones set out in its response to the original recommendation, it still has several related projects in progress. Some of these projects will help to complete the intent of the recommendation.

Cost recovery

28.55 After discussions with its stakeholders, the Board decided to make

no major changes to the current regulations.

Performance reporting

28.56 The Board has made good progress and completed most of its commitments to the 1998 recommendation. It continues to fine-tune its measures for performance indicators.

28.57 The Board currently collects incident-related data from the companies it regulates. Under the revised regulations, it has undertaken to develop more useful key performance indicators for safety and environment performance. It is anticipated that the data will be collected directly from pipeline companies and a set of policies and procedures will be developed to that effect. It is expected that the performance measures will focus more on outcomes and impacts than activities. The plan is to complete this project during 2000-01. It will be important to limit the number of indicators and to differentiate between external reporting needs and internal performance monitoring.

The National Energy Board plans to complete the performance indicators project during 2000-01, focussing more on outcomes and impacts than activities.

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

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Chapter 29

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Chapter 29

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December 2000

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Chapter 29

Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998



December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 29

Treasury Board Secretariat

The Government's Annual Contracting Activity Report — 1998

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	29-5
Introduction	29-7
Reporting on federal contracts	29-7
Parliamentary interest	29-10
Focus of the audit	29-10
Observations and Recommendations	29-10
Validity of Data	29-10
Standing offers are not contracts	29-13
Acquisition/credit card payments do not belong in a report on contracting activity	29-14
Amendments and segregated reporting	29-14
Reliability of Data	29-16
Classification of Contracts	29-16
Completeness of Data	29-17
Contracting by Crown corporations is generally omitted from the Report	29-19
Some contracts are excluded for security reasons	29-19
Preparing and Compiling Data	29-19
Key Concerns About Compilation	29-20
Data on various contracts did not appear in the government-wide contracting database	29-20
The "negative confirmation" process does not function well	29-20
PWGSC's internal review catches some omissions	29-21
Inaccuracies in the data input process were evident	29-21
Transparency in Reporting	29-22
Relevance of Data	29-23
Conclusion	29-26
Subsequent Event	29-27
About the Audit	29-28
Inserts	
The Need for More Accurate and Relevant Information on Contracting Activity — Observations by Standing Committees of Parliament	29-11
Amendments and the Need for Better Information on Them — Observations by the Standing Committee on Government Operations	29-17

Page

Exhibits

29.1	Federal Expenditures and Acquisitions, 1998–99	29-8
29.2	Summary of Acquisition/Credit Cards, Amendments, Standing Offers and Contracting Activity, 1998	29-12
29.3	Standing Offers, 1998	29-14
29.4	Acquisition Card Transactions, 1998	29-15
29.5	Amendments (Net), 1998	29-15
29.6	Amendments for Contracts Let by Public Works and Government Services Canada, 1998	29-16
29.7	Results of Substantive Tests — Sample	29-18
29.8	Definition of Solicitation Procedures	29-22
29.9	Assessing Sole-Sourcing Using an Advance Contract Award Notice (ACAN) Against the Criteria	29-24
29.10	Justification for Not Soliciting Bids	29-26

Appendices

A.	The Treasury Board Secretariat's Annual Contracting Activity Report, 1998	29-31
B.	Government Policy on Contracting	29-35

Treasury Board Secretariat

The Government's Annual Contracting Activity Report — 1998

Main Points

29.1 This chapter examines the Treasury Board Secretariat's Annual Contracting Activity Report for the calendar year 1998. The Report provides Canadians with an annual statistical summary of the number and value of contracts let pursuant to the Government Contracts Regulations (GCR) and the government's contracting policy. The value of the reported contracts in 1998 accounted for $13.4 billion (including NATO Flying Training in Canada Program of $2.99 billion) or more than one third of the $35.7 billion cost of running the government.

29.2 The systems for gathering data for the Report capture most of what is required and have the potential to provide the base for a good and useful document. However, our audit found significant deficiencies in the Report with respect to validity, reliability, transparency and relevance. (We define these terms later.)

29.3 Specifically, the deficiencies that we noted in the 1998 Report include the following:

- **Validity.** Transactions relating to contract amendments, standing offers and credit card payments are included with information on primary contracting activities. The information on these transactions should be segregated in the Report.
- **Reliability.** The audit found that information on the number and dollar value of contracts was incomplete. For example, the Report did not include at least $320 million worth of contracts that should have been reported. We also found that information on the classification of contracts was unreliable.
- **Transparency.** The 1998 Report does not provide enough explanatory information or links to it to enable the unfamiliar reader to understand how the Report was prepared and the meaning of key terms used in presenting the data.
- **Relevance.** As was the case for previous reports, the 1998 Report was not published until more than a year after the end of the reporting period, thereby making its relevance questionable. In addition, it does not contain enough information in particular areas to meet the needs of the public and parliamentarians. These needs have been identified by parliamentary committees.

29.4 The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report.

Background and other observations

29.5 The need for fairly presented and relevant statistical information on the government's contracting activities has been a long-standing concern of the Office of the Auditor General. We first raised the issue in 1982 and more recently in reports in 1991 and 1997. Concerns about the lack of appropriate information on contracting were major elements of the 1995 and 1997 Reports of the Standing Committee of the House of Commons on Government Operations. In 1999, the Public Accounts Committee also expressed concerns about the information and recommended that future reports be audited.

29.6 We recommend that the Treasury Board Secretariat improve the usefulness of the Annual Contracting Activity Report by segregating information on amendments, standing offers and credit card payments. We also

recommend that the Report provide the reasons for directing a contract to a particular supplier. The Treasury Board Secretariat should also develop quality assurance systems for the data used to develop the Report. In addition, the Secretariat needs to direct attention to resolving the conceptual and presentation issues that we have identified. Major improvements can be achieved with some additional effort and attention to statistical reporting by the procurement community.

As noted in "Subsequent Event" at the end of the chapter (paragraph 29.76), the Treasury Board Secretariat has already taken steps to address a number of our concerns. The Secretariat's responses to our recommendations indicate that it is actively addressing some and giving what it believes to be appropriate consideration to the rest.

Introduction

Reporting on federal contracts

29.7 The Treasury Board Secretariat's Annual Contracting Activity Report presents summary statistical information on contracting activity carried out by departments and agencies pursuant to the Government Contracts Regulations (GCRs) and the government's contracting policy. The Report is a relatively short document. It presents information in tabular form and contains virtually no explanatory or contextual material. Information includes the dollar value and actual number of contracts awarded (both above and below $25,000). Contracts are summarized in tables by commodity type (goods, services or construction) and the solicitation procedure used. Another table presents departmental information on contracting in less detail. The entire 1998 Report is presented in Appendix A of this chapter for easy reference.

29.8 Contracts for goods, services and construction account for $13.4 billion — more than one third of the cost of running the government. Information on individual contracts is available from the Contracts Canada Web site, which currently includes most contracts issued by Public Works and Government Services Canada (PWGSC). However, that information is not easily aggregated. Information on payments made by the government through contracts and other purchase arrangements for goods, services and construction can be found in the detailed schedules of the Public Accounts of Canada. Given that there is no other comprehensive summary source of information on contracting in the government, the Annual Contracting Activity Report is the only means through which Parliament, suppliers and the public can begin to track activity in this area.

29.9 The Treasury Board Secretariat sets the requirements, priorities, tone and level of importance given to this report. It is also accountable for monitoring the activities of departments and works with them on how to address the observations and recommendations of the Auditor General, parliamentary committees and internal audits. Public Works and Government Services Canada carries out procurement on behalf of departments in addition to the direct purchasing done by them. A section of PWGSC is also responsible for gathering all the information on procurement (from sources in PWGSC or the departments) and compiling it as required by the Treasury Board Secretariat.

29.10 The government carries out and reports on most of its operations on a fiscal-year basis, with a year-end of 31 March. Contract reports were prepared on a fiscal-year basis up to and including 1994–95. However, procurement reports under the international trade agreements were required on a calendar-year basis. To simplify procurement reporting, the Treasury Board Secretariat approved the change in the reporting period to calendar year, beginning with the 1995 Report.

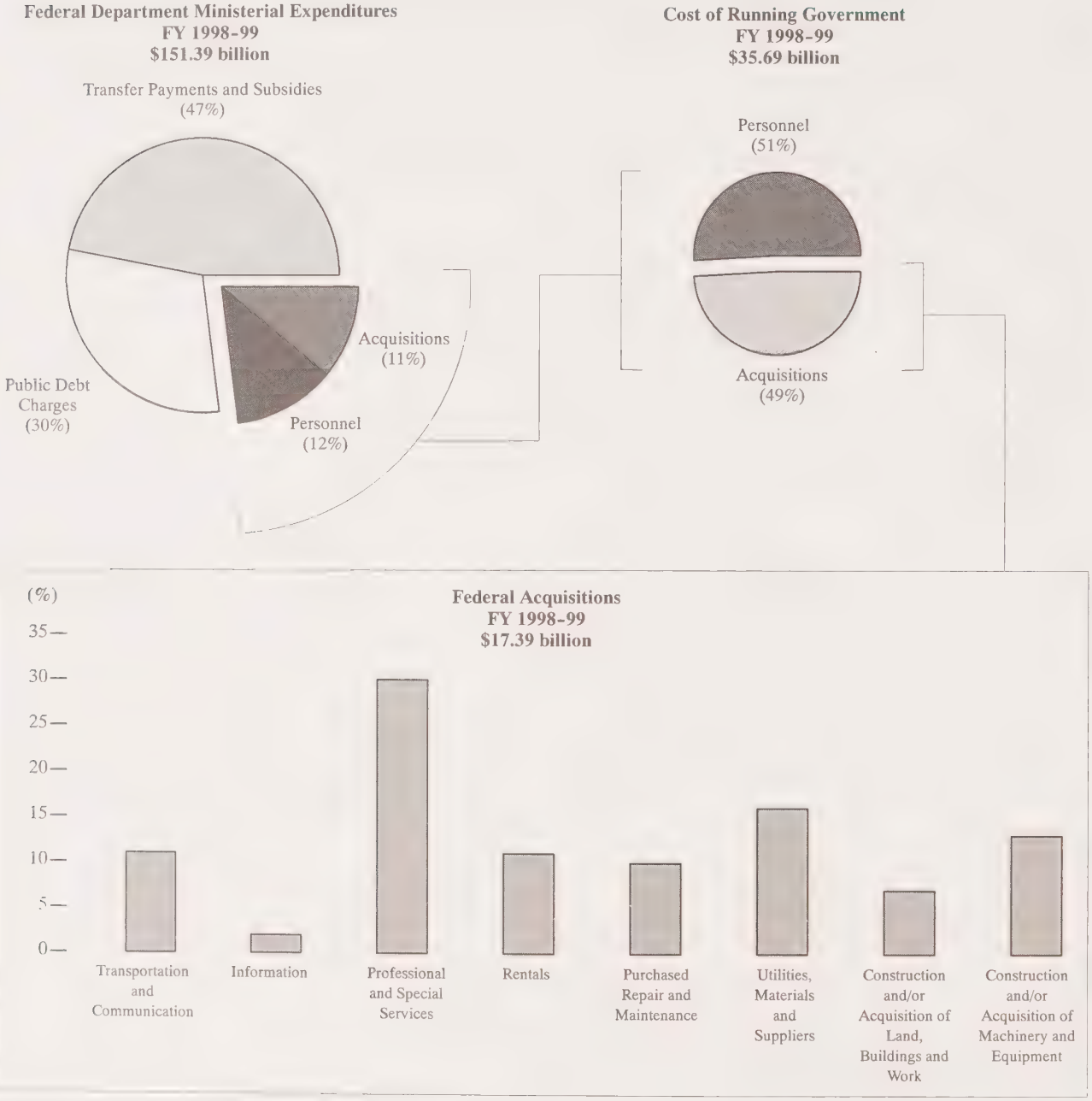
29.11 Contracting in perspective. While federal expenditures for fiscal year 1998–99 exceeded $150 billion, the total cost of running the government (excluding transfer payments and interest) was approximately $35.7 billion, according to the Public Accounts. Of this amount, the government payroll accounted for more than half, or $18.3 billion. The remaining $17.4 billion consisted largely of payments for goods, services and construction (see Exhibit 29.1). Most of this procurement is carried out using contracts. However, while some of these purchases (for example, travel and accommodation) are for goods and services, they are not considered as being contracting activity for the purposes of this report.

29.12 The federal acquisitions shown in Exhibit 29.1 cannot be reconciled with data in the 1998 Report because some of these contracts represent commitments for expenditures extending over several years;

Contracts for goods, services and construction account for $13.4 billion — more than one third of the cost of running the government.

Exhibit 29.1

Federal Expenditures and Acquisitions, 1998–99



Source: Public Accounts of Canada, 1998-99

Exhibit 29.1 (Cont'd)

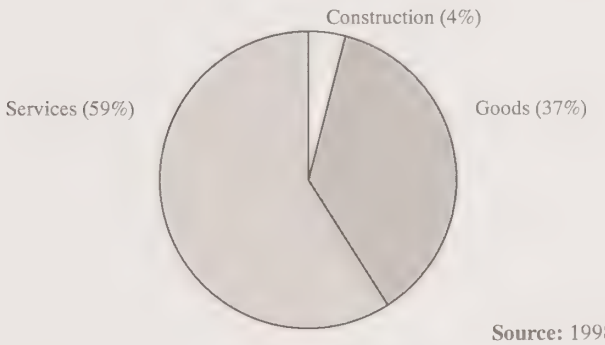
Federal Expenditures and Acquisitions, 1998–99

Partial explanation for Differences between Public Accounts of Canada figures and Annual Contracting Activity Report figures

Standard Object	($ millions)	Part of standard object - not included in the Treasury Board Secretariat's Annual Contracting Activity Report	($ millions)
02 Transportation and Communication	1,920	Travel and Accommodations	1,042
03 Information	379		
04 Professional and Special Services	5,161		
05 Rentals	1,833	Real Property - Buildings	991
06 Purchased Repair and Maintenance	1,780		
07 Utilities, Materials and Suppliers	2,791	Utilities	278
08 Construction and/or Acquisition of Land, Buildings and Work	1,192	Purchase of Land and Buildings	1,059
09 Construction and/or Acquisition of Machinery and Equipment	2,334		
Subtotal	**17,390**		**3,370**
(less exclusions)	3,370		
Estimated Expenditures – 1998-99	**14,020**		

Source: Public Accounts of Canada, 1998-99

Treasury Board Secretariat Annual Contracting Activity Report
1998 (Calendar Year)
$13.43 billion



Source: 1998 Annual Contracting Activity Report

there are also differences in reporting periods and classification between the Public Accounts and the Contracting Activity Report. However, on average, the value of contracts let in any given year is usually a fairly stable proportion of the actual annual expenditure on goods, services and construction.

29.13 Coverage of the Contracting Activity Report. Although the Report is primarily statistical in nature, it does present one key contracting performance indicator: the percentage of contracts let competitively. The government supports a broad cross section of objectives for contracting, such as meeting operational

needs, getting best value, meeting socio-economic needs, treating potential suppliers fairly and achieving transparency (see Appendix B).

29.14 Competition in and of itself is not a sufficient condition for meeting these objectives. However, when used in good faith, it does provide some assurance that the objectives are being met. To that end, the Government Contracts Regulations and the various trade agreements all place a very strong emphasis on competition. They define competition as the preferred means of contracting. They allow contracts to be directed to one supplier only in exceptional and well-defined circumstances. Because of this, the percentage of contracts let competitively is a good summary performance measure. The Treasury Board Secretariat and Public Works and Government Services Canada have publicly stated that an important element of good contracting is competition.

The Treasury Board Secretariat and Public Works and Government Services Canada have publicly stated that an important element of good contracting is competition.

Parliamentary interest

29.15 In recent years, Parliament has shown considerable interest in having reliable and valid information on contracting activity to enable it to evaluate how government contracting policy is being implemented. The shaded insert on page 29-11 presents extracts, related to reporting on contracting activity, from the Reports of the Standing Committee on Government Operations and the Public Accounts Committee. Those committees have made a number of recommendations in this area, which have yet to be implemented. Officials have informed us that the Treasury Board Secretariat is currently considering some changes that may respond in part to those recommendations.

29.16 In particular, the Public Accounts Committee recommended in 1999 that the government's report on contracting activity be audited. This audit responds to that recommendation and to the need to provide information to Parliament on other matters raised in the various committees' recommendations related to contracting activity information.

Focus of the audit

29.17 This chapter examines the Treasury Board Secretariat's Annual Contracting Activity Report for the calendar year 1998. The Secretariat publishes a summary on its Web site of the information in two government-wide schedules. It also provides further details in a schedule that breaks down this information by department. The activities are shown by two classes of values: contracts for less than $25,000 and contracts for $25,000 and above. While the number of contracts issued for less than $25,000 is relatively high, these contracts represent only about 10.5 percent or $1.4 billion by value.

29.18 We wanted to determine the extent to which the Report provides an accurate summary of contracting activity. Specifically, we wanted to assess the validity, reliability, transparency and relevance of the Report, particularly in light of the expressed needs of parliamentarians. The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report. Additional details on the audit are presented in **About the Audit** at the end of the chapter.

Observations and Recommendations

Validity of Data

29.19 "Validity" of data refers to the extent to which the data represent what they purport to represent and do not mingle different types of activity. Where

The Need for More Accurate and Relevant Information on Contracting Activity — Observations by Standing Committees of Parliament

Standing Committee on Government Operations — December 1995 and April 1997

The Committee spent a number of years conducting hearings on contracting. In its report of December 1995, it found that the overall reporting framework for all contracting activity needed to be reviewed and significantly revised by the Treasury Board in order to provide accurate statistical data that was relevant to the needs of parliamentarians.

In April 1997, the Committee again highlighted a need for accurate and relevant information. More specifically it stated:

"Throughout the course of its hearings, our Committee was faced constantly with the lack of statistical information about contracting activity in government. Witnesses from both the private and public sectors voiced the same concerns. TBS and PWGS Canada officials agreed that the existing standardised reporting framework for every department had to be improved so that a proven and accurate database for all contracting activity in the government be established by an acceptable target date. Our Committee believes that TB should place a high priority on this course of action."

"Our Committee has found the TB Annual Contracting Activity Report is a useful means of informing Parliament of a significant segment of annual public expenditures (over $7 billion on 1994-95). It has enabled Treasury Board ministers and officials to evaluate trends in government contracting activity, competitiveness as well as compliance with TB contracting policies and regulations."

"For this annual report to be more useful for parliamentary committees review, our Committee respectfully requests that consideration be given to improving the format and presentation of the data so that parliamentarians may better understand the justification for the variances in contracting activity by department and agency. Brief explanations for non-competitive contracting over $25,000, contract amendments, and other significant variances would improve transparency and greatly assist the committee. Furthermore, in keeping with TB's performance reporting, the tabling of the Contracting Activity Report should be regularized in the fall of each year."

The Committee recommended that the Treasury Board:

a) "in conjunction with PWGS Canada and other departments, continue to improve a standardised reporting framework, so that an accurate database for all contracting activity in the government will be established;

b) place a high priority on eliminating information gaps in government contracting activity by requesting data from departments on competitive and non-competitive contracts, sole-source contracts, contract amendments and justifications;

c) place a high priority on issuing an annual report to Parliament on government contracting activity on a timely and regular basis."

Standing Committee on Public Accounts — May 1999 and June 2000

In its report dated May 5, 1999 addressing the Auditor General of Canada's December 1998 Report, Chapter 26 Contracting for Professional Services: Selected Sole-Source Contracts, the Committee made a number of recommendations, including the following:

Recommendation 1:

"That Treasury Board Secretariat begin immediately to adhere to Section 5.1 of its Contracting Policy by:

a) Issuing a report on contracting at least on an annual basis, if not more frequently. Data contained in these reports must be audited;

b) Requiring all departments and agencies awarding contracts and/or amendments to submit annual reports to the Treasury Board Secretariat on all contracting activities;

c) Evaluating departmental compliance with contracting policies and level of competitive contracting; and

d) Conducting periodic reviews of contracts for services of individuals, including those for less than $5,000. The results of these reviews must be included in Treasury Board Secretariat's Contracting Activity Report."

Recommendation 5:

"That Treasury Board Secretariat encourage departments to include specific references to their contracting activities in their annual Performance Reports beginning with those reports issued for the period ending 31 March 1999."

The Treasury Board Secretariat has advised that Section 5.1 of its contracting policy requires that entities shall report such data to the Secretariat; there is no legislative requirement to make this information public. The reporting requirement began with the 1991-92 fiscal year. All the years since 1991-92 are now being posted in summary on its Web site.

The Public Accounts Committee in its report, dated June 2000, dealt with our November 1999 Report, Chapter 30, Sole-Source Contracting for Professional Services – Using Advance Contract Award Notices. In this report, the Committee made the following recommendations on modifications that it would like to see incorporated in the Report:

4. "That Treasury Board Secretariat monitor departmental review of challenges to Advance Contract Award Notices and begin reporting the results accompanied by detailed explanations showing why challenges were either excepted or denied in its Annual Contracting Activity Reports beginning with the report for 2001.

5. That Treasury Board Secretariat cease its practice of deeming sole-source contracts posted in Advance Contract Award Notices as competitive until the recommendations made by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts with regard to sole-source contracts have been fully implemented and it can provide reasonable assurance that all existing requirements related to the circumstances under which sole source contracts may be awarded have been satisfied."

Exhibit 29.2

Summary of Acquisition/Credit Cards, Amendments, Standing Offers and Contracting Activity, 1998

All Departments and Agencies Subject to Government Contracts Regulations

1998 - Total Value of Contract Awards

Value Class	Solicitation Procedure*	As Filed Total ($,000)	(%)	Acquisition/Credit Cards Total ($,000)	(%)	Amendments (Net) Total ($,000)	(%)	Standing Offers Total ($,000)	(%)	Contracting Activity Total ($,000)	(%)
Contracts below $25,000	Competitive	521,774	37.05	147,911	46.66	19,112	36.02	32,234	75.57	322,517	32.40
	ACANs	14,872	1.06			10,124	19.09	81	0.19	4,667	0.47
	Non-Competitive	871,496	61.89	169,086	53.34	23,810	44.89	10,340	24.24	668,260	67.13
	Subtotal	1,408,142	100.00	316,997	100.00	53,046	100.00	42,655	100.00	995,444	100.00
Contracts $25,000 and above	Competitive	6,165,857	51.27			1,138,956	58.42	1,057,657	79.25	3,969,244	45.40
	ACANs	1,813,426	15.08			196,652	10.09	2,212	0.17	1,614,562	18.47
	Non-Competitive	4,046,756	33.65			614,010	31.49	274,699	20.58	3,158,047	36.13
	Subtotal	12,026,039	100.00			1,949,618	100.00	1,334,568	100.00	8,741,853	100.00
All Contracts	Competitive	6,687,631	49.78	147,911	46.66	1,158,068	57.82	1,089,891	79.13	4,291,761	44.07
	ACANs	1,828,298	13.61			206,776	10.33	2,293	0.17	1,619,229	16.63
	Non-Competitive	4,918,252	36.61	169,086	53.34	637,820	31.85	285,039	20.70	3,826,307	39.30
Total		13,434,181	100.00	316,997	100.00	2,002,664	100.00	1,377,223	100.00	9,737,297	100.00

1998 - Total Number of Contracts

Value Class	Solicitation Procedure*	As Filed #	(%)	Acquisition Cards #	(%)	Amendments #	(%)	Standing Offers #	(%)	Total Adjusted #	(%)
Contracts below $25,000	Competitive	550,998	36.16	419,490	37.95			3,056	77.17	128,452	31.00
	ACANs	578	0.04					6	0.15	572	0.14
	Non-Competitive	972,064	63.80	685,886	62.05			898	22.68	285,280	68.86
	Subtotal	1,523,640	100.00	1,105,376	100.00			3,960	100.00	414,304	100.00
Contracts $25,000 and above	Competitive	13,023	64.20					3,044	87.55	9,979	59.37
	ACANs	3,606	17.78					13	0.37	3,593	21.38
	Non-Competitive	3,655	18.02					420	12.08	3,235	19.25
	Subtotal	20,284	100.00					3,477	100.00	16,807	100.00
All Contracts	Competitive	564,021	36.53	419,490	37.95			6,100	82.02	138,431	32.11
	ACANs	4,184	0.27					19	0.26	4,165	0.97
	Non-Competitive	975,719	63.20	685,886	62.05			1,318	17.72	288,515	66.92
Total		1,543,924	100.00	1,105,376	100.00			7,437	100.00	431,111	100.00

* See Exhibit 29.8 for definition of solicitation procedures.

Source: 1998 Annual Contracting Activity Report
Data supplied by Public Works and Government Services Canada and the Treasury Board Secretariat

different types of activity are important, the information on them should be segregated or posted in separate schedules. In this case, the data in the Annual Contracting Activity Report represent contracting activity carried out pursuant to the Government Contracts Regulations and the government's contracting policy during the reporting period. Accordingly, we would expect that:

- data on primary contracts would be distinguished from data on amendments; and
- data on standing offers and credit card payments, which are not contracts, would be segregated from information on primary contracts in the Report.

29.20 Our review of validity of data focussed on the three types of transactions mentioned above: standing offers, acquisition cards and amendments (see Exhibit 29.2).

Standing offers are not contracts

29.21 In the 1998 Report, data on standing offers are included and data on the call-ups pursuant to them are excluded. Combining data on standing offers with contracts is not appropriate. A standing offer is a non-binding agreement between the federal government and a potential supplier. It is not a contract within the context of the Government Contracts Regulations. In that agreement, the supplier agrees to supply at a fixed price the specified goods or services up to a maximum amount, if and when the government needs them. A contract arises only when there is a call-up against the standing offer, at which time a contract for the quantity and delivery is struck between the government and the supplier.

29.22 Because standing offers are not contracts, data relating to them should be shown separately — not included with data on actual contracts. Combining the two types of data in effect overstates contracting activity, resulting in reported data on contracting activity that are invalid and unreliable. The dollar-value effect can be significant. For example, data from PWGSC indicated that in 1998 the Department had included more than $1.3 billion in standing offers in the Contracting Activity Report for amounts greater than $25,000.

29.23 Because standing offers are not contracts, the value attached to a given standing offer represents only an estimate of a future need. In fact, some standing offers never result in any call-ups against them. However, in the Report, a standing offer (for example, for $25,000) for which no call-ups have been issued is still reported as representing $25,000 worth of contracting activity. We even noted some instances of "double reporting" in which the standing offer and the call-ups against it were included in the data.

Some standing offers never result in any call-ups against them.

29.24 Exhibit 29.3 presents some information on the number and dollar value of standing offers in 1998. The full effect of including activity related to the $1.3 billion value of standing offers in the Report cannot be assessed because there are no reliable and comprehensive data on the actual contracts resulting from call-ups against standing offers on a government-wide basis. What is missing from the Report is the information on the number and value of contracts issued pursuant to a standing offer. However, given the current state of the available data, the magnitude of this material omission cannot reliably be estimated. As with other contracts, the information necessary to report on call-ups related to standing offers should be retained by the issuing authority and reported to the Treasury Board Secretariat on the same basis as are other contracts. We also note that the North American Free Trade Agreement (NAFTA) reporting requirements impose a statutory obligation on the government to gather the data on call-up contracts.

A standing offer is a non-binding agreement between the federal government and a potential supplier. It is not a contract within the context of the Government Contracts Regulations.

The 1998 Annual Contracting Activity Report included over one million credit card payments amounting to approximately $300 million.

Acquisition/credit card payments do not belong in a report on contracting activity

29.25 Acquisition/credit cards are issued to staff on behalf of federal departments and agencies to pay for small-value purchases. The acquisition card was a government initiative that the Treasury Board Secretariat launched in December 1991 as a convenient method of procuring and paying for goods and services (within the level of delegated procurement authority) where it is efficient, economical and operationally feasible to do so.

29.26 The 1998 Annual Contracting Activity Report included, as part of the information on contracts under $25,000, over one million credit card payments amounting to approximately $300 million. In our view, acquisition card payments are not contracts as defined in the government's contracting policy and are subject to a separate policy requirement. As such, information on them should be segregated in the Report. As with standing offers, if sufficiently reliable and complete information on this type of activity can be compiled, it could be usefully presented in a note or as a separate schedule in future reports. Some segregated information on acquisition card payments is given in Exhibit 29.4.

Amendments and segregated reporting

29.27 Contracts may be amended in various ways, which may increase or decrease their dollar value. The 1998 Report shows that the net value of all amendments entered into in the reporting period was just over $2 billion. A segregated display of the information on amendments in the Report is presented in Exhibit 29.5.

29.28 Amendments are a form of contracting activity, and therefore they should be included in the Contracting Activity Report. However, they are a very different type of activity from the original contracts to which they relate. Therefore, they should be shown in a separate

Exhibit 29.3

Standing Offers, 1998

Value Class	Solicitation Procedure	Number of Standing Offers		Value of Standing Offers	
		Number	Percent of Total Number	Value ($,000)	Percent of Total Value
Standing Offers below $25,000	Competitive	3,056	77.17	$32,234	75.57
	ACANs	6	0.15	$81	0.19
	Non-Competitive	898	22.68	$10,340	24.24
	Subtotal	3,960	100.00	$42,655	100.00
	Proportion	53.25%		3.1%	
Standing Offers $25,000 and above	Competitive	3,044	87.55	$1,057,657	79.25
	ACANs	13	0.37	$2,212	0.17
	Non-Competitive	420	12.08	$274,699	20.58
	Subtotal	3,477	100.00	$1,334,568	100.00
	Proportion	46.75%		96.9%	
All Standing Offers	Competitive	6,100	82.02	$1,089,891	79.13
	ACANs	19	0.26	$2,293	0.17
	Non-Competitive	1,318	17.72	$285,039	20.70
Total		7,437	100.00%	**$1,377,223**	100.00%

Source: Data supplied by Public Works and Government Services Canada

schedule of the Report. This would make them more visible and would provide the level of detail needed to make the information on amendments more useful. For example, it would be useful to display the total value of upward and downward amendments separately. Data on amendments for the current year and prior years should also be presented (see shaded insert on page 29-17).

29.29 Exhibit 29.6 presents 1998 information for amendments entered into by PWGSC, using its Automated Buyer Environmental system (ABE). ABE covers more than 90 percent of the contracts let by PWGSC on behalf of departments. As the Exhibit shows, most of the amending activity relates to contracts that were let in prior years.

29.30 The Treasury Board Secretariat should segregate data on standing offers, acquisition/credit card transactions and amendments from the schedule on primary contracting activities in the Annual Contracting Activity Report.

29.31 The Treasury Board Secretariat should examine the feasibility of gathering and reporting data on standing offer call-up contracts, with the intent of both improving the Report and meeting the government's trade reporting obligation.

29.32 Provided that reliable and complete information can be compiled on acquisition/credit card transactions, the Treasury Board Secretariat should present that information in a separate schedule in the Report.

29.33 With respect to amendments, the Treasury Board Secretariat should report separate information on increases and decreases in value, by current year and prior years. Such information should be included in a separate schedule in the Report.

Treasury Board Secretariat's response: *The Treasury Board Secretariat has implemented a number of changes in its 1999 Purchasing Activity Report (previously known as the Contracting Activity Report) consistent with the Auditor General's recommendations. These changes supplement the extensive information on contracting available through Contracts Canada* (http://www.contractscanada.gc.ca)*, the government's statutory reports to Parliament, as well as internal audits and*

Exhibit 29.4

Acquisition Card Transactions, 1998

Value Class	Solicitation Procedure	Number of Transactions	(%) of Total Number
Contracts below $25,000	Competitive	419,490	37.95
	ACANs		
	Non-Competitive	685,886	62.05
	Subtotal	1,105,376	100.00

Source: Data supplied by the Treasury Board Secretariat

Exhibit 29.5

Amendments (Net), 1998

Value Class	Solicitation Procedure	Value (Net) ($ 000)	(%) of Total Value
Amendments below $25,000	Competitive	$19,112	36.02
	ACANs	$10,124	19.09
	Non-Competitive	$23,810	44.89
	Subtotal	$53,046	100.00
Amendments $25,000 and above	Competitive	$1,138,956	58.42
	ACANs	$196,652	10.09
	Non-Competitive	$614,010	31.49
	Subtotal	$1,949,618	100.00
All Amendments	Competitive	$1,158,068	57.82
	ACANs	$206,776	10.33
	Non-Competitive	$637,820	31.85
Total		**$2,002,664**	100.00%

Source: 1998 Annual Contracting Activity Report
Data supplied by Public Works and Government Services Canada

information from government Web sites. In the 1999 Report, segregated information is provided on amendments and acquisition card transactions. The Secretariat, in close co-operation with Public Works and Government Services Canada and key departments and agencies, will examine the feasibility of expanding its work on standing offers.

Reliability of Data

29.34 In this audit, we refer to reliability of data as the degree to which the process for gathering and compiling data produces correct and complete information. For the purposes of this audit, we have tested the reliability of data for the extent to which:

- contracts have been properly classified (competitive, advance contract award notice or non-competitive); and
- data on the number and dollar value of awarded contracts are complete and accurate — that is, all contracts (and only those contracts) that should appear in the Report are included.

29.35 We have concerns about the reliability of data in the two areas noted above. Certain reliability problems can be linked to the process for preparing and compiling the data, which we discuss in the section beginning at 29.48.

Classification of Contracts

29.36 In carrying out our substantive testing, we looked in detail at 590 contracts with a total value of about $7 billion. The contracts were drawn from a universe of some 20,000 contracts, processed either by PWGSC or other departments, with a value of about $10 billion, exclusive of amendments. Our sample of 590 contracts accounted for such a high proportion (about 70 percent) of the total value of $10 billion because 89 of them were very large contracts, representing a total value of more than $6 billion. This figure includes a contract for the NATO Flying Training in Canada Program valued at $2.99 billion.

29.37 In reviewing the 590 contracts, we wanted to determine the extent to which they had been classified correctly, so that readers of the Report could assess the extent of competitive versus non-competitive contracting. It is important to be able to make this assessment, given that openness and

Exhibit 29.6

Amendments for Contracts Let by Public Works and Government Services Canada, 1998

	Current Year Amendment Value ($ 000)	Original Value of Current Year Contracts Amended ($ 000)	Percent	Original Value of Prior Year Contracts Amended	Prior Year Amendments ($ 000)	Total Amendments ($ 000)
Increase in Value	$176,703	$1,177,325	15	(information	$1,785,547	$1,962,250
Number of Amendments	1,934			not available)	3,498	5,432
Decrease in Value	-$49,473	$303,770	-16		-$125,434	-$174,907
Number of Amendments	624				785	1,409
Amendments Net	$127,230		8.6		$1,660,113	$1,787,343
Total Value		$1,481,095				

(Excluding NATO Flying Training in Canada Program)

Note: 1998 contracting activity = $9,737,304 ($25,000 and above)

Source: Data supplied by Public Works and Government Services Canada

competition are so central to government contracting policy.

29.38 To carry out our testing, we divided the population into two major groups — contracts for $10 million and over and those under $10 million. For the $10 million and over group, we tested the entire population. This represented contracts worth in total over $6 billion. We found that $292 million in contracts for $10 million and over had been misclassified in terms of the type of competition used.

29.39 Our sample of the balance of the population involved 501 contracts with a value of $895 million, representing a population with a value of about $3.8 billion. Our testing found that $126 million of the contracts in the sample had been misclassified; this led to a best estimate, based on the sample result, that in this segment of the population about $520 million worth of contracts had been wrongly classified.

29.40 By far, the most frequent error lay in the classification of contracts as having been let using a "traditional competitive" approach. The term appears to have been as unclear to many of the preparers of the information as it would be to the users. As a result, many contracts that were let using the electronic bidding system were misclassified as being "traditional competitive".

29.41 Our testing concentrated on whether or not the classification was correct, and therefore we are not prepared to make an estimate of the potential impact of these errors on the competition percentage (see Exhibit 29.7).

Completeness of Data

29.42 If the Report is to be considered a source of reliable information on contracting activity, that information must be complete. It must include all contracting activity carried out pursuant to the Government Contracts Regulations (GCRS). If the data do not include all contracts that should appear in the Report, their reliability is compromised.

Amendments and the Need for Better Information on Them — Observations by the Standing Committee on Government Operations

In a preliminary report dated December 1995, the Chairman of the Standing Committee on Government Operations recommended the following:

"6) Amendments – Given the alarming rise in amendments to government contracts, this Committee recommends:

a) Each department should have a senior management committee to review all amendments.

b) Amendments should be justified by the contractor to the department responsible for the contract.

c) Amendments should be broken down into sub-categories. For example: cost overruns, legitimate contract add-ons, etc..., with the aim of significantly reducing unnecessary cost overruns.

d) These amendment sub-categories should have varying tolerances to be determined by a central agency. The Committee recommends that 10% be used as a guideline for specific cost overruns."

Amendments were also included in a Standing Committee report dated April 1997.

"Growth in Contract Amendments"

22. "Our Committee is also concerned over the increasing use of contract amendments in most government departments and agencies. In 1994-95, for contracts $25,000 and above, it was reported by TBS to our Committee that the number of amendments to contracts had not declined since the previous year and the value of amendments had decreased only from $1.83 billion to $1.15 billion. This represents about 21% of $5.6 billion worth of original contracts.

23. "Our committee shares the Treasury Board concern over the large volume of contract amendments. In many cases, the amendments are necessary and justified; in others, cost overruns have occurred as a result of weak project management and poor financial controls. Our committee believes that tighter monitoring of contract performance should be enforced by Treasury Board and by the contracting authority within departments and agencies."

Exhibit 29.7

Results of Substantive Tests — Sample

We took a total sample of 590 contracts. Of these, 466 were issued by Public Works and Government Services Canada and 124 by departments directly.

Comparison of actual to reported	VALUE								
Solicitation Procedure	Contracts issued by PWGSC =>$10 million				Contracts issued by departments =>$10 million				Total
Hierarchy of Solicitation Procedures	C	H	L	$ Millions	C	H	L	$ Millions	$ Millions
Open Bidding	1,345	-	-	1,345	238	14	-	252	1,597
Traditional Competitive	559	15	211	785	-	-	-	0	785
Advanced Contract Award Notice	677	40	-	717	-	-	-	0	717
Traditional Non-Competitive	3,123	-	12	3,135	-	-	-	0	3,135
Subtotal Value	5,704	55	223	5,982	238	14	-	252	6,234
Percent of Total Value	95.4	0.9	3.7	100	94.4	5.6	-	100	
	Other contracts issued by PWGSC =>$25,000				Other contracts issued by departments =>$25,000				
Open Bidding	336	22	-	358	93	1	-	94	452
Traditional Competitive	61	11	64	136	30	7	3	40	176
Advanced Contract Award Notice	202	10	1	213	21	1	-	22	235
Traditional Non-Competitive	9	-	6	15	17	-	-	17	32
Subtotal Value	608	43	71	722	161	9	3	173	895
Percent of Value	84.2	6.0	9.8	100	93.1	5.2	1.7	100	
TOTAL VALUE	6312	98	294	6,704	399	23	3	425	7,129
Percent of Total Value	94.1	1.5	4.4	100	93.9	5.4	0.7	100	

Comparison of actual to reported	NUMBER								
Solicitation Procedure	Contracts issued by PWGSC =>$10 M				Contracts issued by departments =>$10 M				Total
Hierarchy of Solicitation Procedures	C	H	L	Number	C	H	L	Number	Number
Open Bidding	44	-	-	44	2	1	-	3	47
Traditional Competitive	13	1	5	19	-	-	-	0	19
Advanced Contract Award Notice	18	2	-	20	-	-	-	0	20
Traditional Non-Competitive	2	-	1	3	-	-	-	0	3
Subtotal Number	77	3	6	86	2	1	-	3	89
Percent of Number	89.5	3.5	7.0	100	66.7	33.3		100	
	Other contracts issued by PWGSC =>$25,000				Other contracts issued by departments =>$25,000				
Open Bidding	191	11	-	202	42	2	-	44	246
Traditional Competitive	32	4	25	61	28	3	7	38	99
Advanced Contract Award Notice	93	6	1	100	16	1	-	17	117
Traditional Non-Competitive	14	-	3	17	22	-	-	22	39
Subtotal	330	21	29	380	108	6	7	121	501
Percent of Number	86.9	5.5	7.6	100	89.3	5.0	5.9	100	
TOTAL NUMBER	407	24	35	466	110	7	7	124	590
Percent of Total Number	87.3	5.2	7.5	100	88.8	5.6	5.6	100	

C= Correct as to actual level of competition
H= Higher as to actual level of competition
L= Lower as to actual level of competition

Contracting by Crown corporations is generally omitted from the Report

29.43 As noted earlier, the Annual Activity Contracting Report is intended to cover only those contracts let under the Government Contracts Regulations. Except for the National Capital Commission (NCC), Crown corporations do not fall under these regulations. Accordingly, the NCC should report its contracting activity, but it has never done so. The Treasury Board Secretariat has advised us that the Commission has now begun to report the required information, starting with calendar year 1999. Conversely, we found that another Crown corporation, the National Film Board, did report, even though it is specifically excluded from reporting requirements as per the GCRs.

29.44 It is worth noting that as the continued evolution of alternative service delivery unfolds, the issue of what is the population of entities necessary to ensure a comprehensive overview of the government's contracting activity will become more important. For example, in late 1999 Revenue Canada became the Canada Customs and Revenue Agency and subsequently no longer came under the GCRs. In 1998, according to the Report, Revenue Canada initiated over $280 million of contracting activity (primary contracts, amendments, standing offers and acquisition card payments).

Some contracts are excluded for security reasons

29.45 The contracting activities of the Canadian Security Intelligence Service (CSIS) are governed by the Government Contracts Regulations. Strictly speaking, they should therefore be included in the Report. However, the Treasury Board Secretariat has agreed not to include them for security reasons. Similarly, a number of other contracts let by PWGSC are omitted from the 1998 Report for security reasons.

29.46 Contrarily, The Public Accounts of Canada includes financial data for security-sensitive entities. These data are appropriately combined with those of related entities to ensure that security is not compromised. In our opinion, the Report could adopt a similar approach in reporting those contracts currently excluded for security reasons. Doing so would create a more accurate picture of the government's true contracting activity.

29.47 The Treasury Board Secretariat should include in the Annual Contracting Activity Report all contracting activity in the reporting period subject to the Government Contracts Regulations and the government's contracting policy. Where security considerations require it, the information should be appropriately aggregated with that of other entities.

The National Capital Commission should report its contracting activity, but it has never done so.

Treasury Board Secretariat's response: The Treasury Board Secretariat is committed to ensuring that the Purchasing Activity Report is open and transparent and is reflective of the government's policy framework. The Secretariat will review the existing Report to ensure that it remains consistent with the government's national security requirements.

The 1999 Purchasing Activity Report addresses the minor omissions identified through this audit.

Preparing and Compiling Data

29.48 The information in the Report is only as reliable as the data on which it is based. We looked at the extent to which the data on about $10 billion (excluding amendments) worth of contracts over $25,000, let in 1998, were complete. Our review focussed on the $1.2 billion reported by some 60 departments and the $8.9 billion that PWGSC had let for itself and on behalf of other departments.

29.49 The following briefly describes the basic steps involved in compiling data for the Report:

We found at least $320 million (about 2.4 percent) in missed contracts that should have been included in the 1998 Report.

- First, departments collect data on the contracts they have issued themselves (including data on any amendments) according to instructions from the Treasury Board Secretariat on what data to include and how to report them.

- Second, PWGSC adds departmental data to its own data on contracts that it has let itself and on behalf of other departments. PWGSC's data are captured by two main systems. These systems vary in the quality of data they produce. (We note that PWGSC is moving toward using only the better of the two systems. This should result in better quality data in the future).

- Third, PWGSC rolls up departmental data and data from its own two systems into a single database — the Government-Wide Procurement Reporting System.

- Fourth, PWGSC asks departments to confirm the accuracy and completeness of the roll up. It then sends the data to the Treasury Board Secretariat. It is important that senior levels in departments be aware of what information is being reported on their contracting activity and how it was derived, prior to the Report being submitted to ministers.

- Fifth, the Secretariat adds data on those credit card transactions not yet reported and formats the data into the Annual Contracting Activity Report.

Key Concerns About Compilation

Data on various contracts did not appear in the government-wide contracting database

29.50 Our preliminary tests showed that a number of significant contracts that had been let in 1998 had not been included in the Government-Wide Procurement Reporting System. For example, we found that a contract for $27 million that PWGSC had let on behalf of another department was missing from the government-wide system. (As noted earlier, this system produces the data on which the Report is based.) PWGSC attributed this omission to delays in transferring data between two systems. Despite such delays, the data are eventually captured; however, if the data are not sent to the government-wide system in time, they will not be reflected in the Report.

29.51 To quantify the effect of such delays, we used the most current information (30 June 2000) available on contracts let by PWGSC in 1998. We found at least $320 million (about 2.4 percent) in missed contracts that should have been included in the 1998 Report.

29.52 PWGSC records a number of contracts manually, some of which are high-value. However, the Department has no central registry or system that contains data on every contract that it lets. Accordingly, the Department could not provide us with assurance on the completeness (reliability) of any list of contracts it might produce.

The "negative confirmation" process does not function well

29.53 As previously noted, each department is asked to confirm the contracting data relating to it. If departments do not request any changes or note any omissions, PWGSC considers silence to be a confirmation. In our view, this "negative confirmation" approach is not effective. We did not specifically audit departmental systems for capturing data on contracts. Therefore we cannot accurately quantify their effect on the overall reliability of contracting data. However, other audit work carried out the our Office and the lack of response by departments to the negative confirmation process led us to believe that system deficiencies may exist.

PWGSC's internal review catches some omissions

29.54 We found that PWGSC, following its review of the data, had advised departments (after confirmation had been requested) that 37 contracts, valued at more than $3 billion, had been omitted from the Report. These were contracts that PWGSC had carried out on behalf of various departments. One contract was for $2.99 billion (NATO Flying Training in Canada Program). The other 36 had a total value of almost $50 million. No department had notified PWGSC that any of these contracts had been omitted from the Report; furthermore, there is no requirement for any departmental official to sign off on the accuracy of the contracting activity data submitted to PWGSC.

Inaccuracies in the data input process were evident

29.55 The quality and accuracy of input directly affect the reliability of data and, by extension, the Report. We examined a sample of 590 contracts to test the accuracy of the coding or input for the classification of contracts. We chose classification because, as noted earlier, how contracts are classified is essential to assessing the extent of competition in the government contracting process. We found more than 10 percent of the contracts were misclassified.

29.56 The reliability issue is not new. We raised it in the 1991 Report of the Auditor General and again in 1997. In those reports, we reported that the systems capture basic contract information, including the contract-award method (competitive or non-competitive). This information allows the tabulation and reporting of statistics on the number of competitive and non-competitive procurements. However, the systems do not accurately capture the reasons for awarding non-competitive contracts, and the reliability of the internal information is questionable.

29.57 In 1998 Public Works and Government Services Canada accounted for almost $9 billion (excluding amendments) of the total value of contracts reported. During the past few years, three internal audits focussed on the integrity of the procurement data collection systems. These audits did not test for completeness but concentrated on how data are captured. They all concluded that except for certain "tombstone" data (dates and contract values), much of the statistical information cannot be relied upon.

29.58 The Department has indicated that improvements made to its quality control procedures, combined with other system changes, should permit it to improve the quality and timeliness of its data.

29.59 The Treasury Board Secretariat should establish quality assurance standards for the preparation of data submitted for inclusion in the Annual Contracting Activity Report. These standards should include specific parameters for the completeness and accuracy of the data.

29.60 The Treasury Board Secretariat should require that when an entity submits its data for inclusion in the Annual Contracting Activity Report, the Senior Financial Officer for the entity include a letter of representation. This letter would give assurance to the Treasury Board Secretariat that the data have been prepared in accordance with the instructions, the required quality assurance procedures have been applied with a satisfactory result, and the submitted data contain no material errors.

Treasury Board Secretariat's response: The Treasury Board Secretariat is working with departments and agencies to examine ways to streamline and improve how statistics on contracting activity are

There is no requirement for any departmental official to sign off on the accuracy of the contracting activity data submitted to Public Works and Government Services Canada.

compiled and will review the appropriateness of the existing reporting requirements and the current reporting standard provided in the Procurement Reporting Guide.

Consistent with Results for Canadians, *sign-off at an appropriate level of delegations within the department will be a requirement for future reports.*

The Annual Contracting Activity Report does not contain any descriptive text to provide a context for the information and how to interpret it.

Transparency in Reporting

29.61 Transparency in reporting relates to how clear and understandable the information in the Report is to its readers. Transparent reporting results in more openness and provides a better understanding of why decisions are made. Moreover, it contributes to improving future performance, since Parliament and the public have access to the data needed to evaluate the implementation of contracting policy.

29.62 The Report does not contain any descriptive text to provide a context for the information and how to interpret it. For example, the Report classifies contracts according to four solicitation procedures: open bidding, traditional competitive, advance contract award notice (ACAN) and traditional non-competitive (see Exhibit 29.8). However, there is no explanation of these classifications and their relationships to the contracting process (particularly the element of competition) in the Report itself. The only complete description of them we found was in the instructions given by the Treasury Board Secretariat to those who prepare the data. A clear understanding of these terms is important to anyone who wants to understand and draw conclusions from the data.

29.63 In our view, to be more transparent and useful, we would expect the Report to:

- define its purpose;
- explain what is being reported;
- indicate how it was prepared (time frame, relevant rules and regulations, etc.);
- explain the concept of contract value (original value of contract including GST and excluding amendments); and
- elaborate on the headings and provide more definitions.

Exhibit 29.8

Definition of Solicitation Procedures

Open Bidding (Competitive)	Solicitations that meet the requirements of section 7(a) of the Government Contracts Regulations (GCRs) — A contracting authority shall solicit bids by giving public notice, in a manner consistent with generally accepted practices, of a call for bids respecting a proposed contract. The most frequent way of doing this is by posting it on MERX, an electronic tendering service.
Traditional Competitive	Solicitations that meet the requirements of section 7(b) of the GCRs — A contracting authority shall solicit bids by inviting bids on a proposed contract from suppliers on the suppliers' list. Source lists are used to identify potential bidders.
Advanced Contract Award Notice (ACAN)	Directed contracts, which meet one of the four exceptions allowed under Section 6 of the GCRs — ACANs are posted on MERX to allow other potential suppliers to challenge the decision before the contract is let.
Traditional Non-Competitive	Directed contracts, which meet one of the four exceptions allowed under Section 6 of the GCRs — They are not posted prior to the award of the contract and potential suppliers have little opportunity to launch a challenge.

Source: Procurement Reporting Guide

29.64 We would also expect the Report to present a range of other explanatory text such as:

- explanations of contract award processes being used — open bidding, traditional competitive, ACAN or traditional non-competitive;
- definitions of commodity types;
- explanations on comparing current information with information from prior years;
- a list of any departments or agencies that ought to have been included that were not; and
- supplementary schedules on amendments, acquisition cards, standing offers, justification for sole-sourcing of ACANs and traditional and non-competitive contracts, and analysis of performance year to year.

29.65 The Treasury Board Secretariat has agreed and has reflected most of these elements in its preliminary 1999 Report.

Relevance of Data

29.66 To be relevant to decision makers such as Parliament and its committees and other interested parties, it is important that the Report be timely and contain the required information in a clear and concise manner. As this is a report on contracting activity, it should contain information specifically related to the level of competition and the reasons for not soliciting bids. Other information on standing offers, acquisition cards and amendments should be presented either in notes to the main schedules of the Report or in separate schedules.

29.67 Timeliness. In the past, reports have often been considerably out of date when they were published. The 1998 Report was no exception. It was not available until well over a year after the end of the period being reported. These delays have been a significant irritant to parliamentarians. The Secretariat is working with departments and agencies through the Treasury Board Advisory Committee on Contracting to develop procedures that will streamline the production of future reports. It has also taken some other steps toward improving the substance and timeliness of the Report.

29.68 Data on the degree of competitiveness. As discussed earlier, the percentage of contracts let competitively is an important measure of government contracting performance and a matter in which Parliament has expressed ongoing interest. The summary and detailed schedules of the Report present this percentage; however, it differs between the schedules. In the summary schedules, the competitiveness percentage is correctly calculated. It reflects only those contracts let using the open bidding and traditional competitive methods of competition (based on a source list of potential contractors). Sole-source contracts and ACANs are reported as a separate percentage. Sole-source contracts are correctly labelled as non-competitive. However, in the detailed schedule, which breaks out the information by reporting entity, the competitive percentage includes sole-source contracts that were let following the posting of an ACAN. As we indicated in our November 1999 Report:

> In compiling its statistics on contracting performance for 1996 and 1997, the Treasury Board Secretariat began the practice of treating contracts awarded after posting an ACAN as "competitive" for some statistical reporting purposes. In our view, this practice is misleading. First, as can be seen from our observations, the contracts are sole-source contracts — not the result of an open, competitive tendering process. Posting a notice of the intent to issue a sole-source contract is not a substitute for competition.

The Treasury Board Secretariat began the practice of treating contracts awarded after posting an advance contract award notice (ACAN) as "competitive" for some statistical reporting purposes. In our view, this practice is misleading.

Exhibit 29.9

Assessing Sole-Sourcing Using an Advance Contract Award Notice (ACAN) Against the Criteria

ACANs: In Chapter 30 of our November 1999 Report, we concluded that the ACANs associated with the sole-source contracts added transparency to directed contracting because ACANs are publicly advertised. This compares with the nearly 40 percent of sole-source contacts that are let without any public notice. But we still maintain that such contracts should not be included with competitive contracts when quoting the level of competitiveness.

Our 1999 chapter identified that departments improperly used ACANs and only six percent of the 50 ACANs were posted on MERX for the required 15 calendar days.

In our 1999 audit on ACANs, we published the following results:

	Met (%)	Not Met (%)
The decision to sole-source was in accordance with one of the four exceptions in the regulations.	11	89

Issue	Competitive Situation	Sole-Sourcing ACAN
Openness	Call for tenders is available to all involved at the same time.	The award notice is posted only after arrangements with the chosen supplier are substantially complete.
Perception of Openness	All qualified suppliers are welcome.	This is a type of "negative-option". "We've made our decision that no one else can do this, challenge it, if you will."
Time	The time varies with the complexity of the situation, but all bidders have the same amount of time to prepare and submit their bids.	There is a 15-day minimum period; however, this can often be as few as nine working days. The selected supplier has no formal constraint on the time it has to prepare its offer.
Information on Requirements	The tendering documents contain a detailed statement of requirements and specify how parties' requirements are to be presented. All parties receive the same information.	A very brief statement of requirements is often included in the ACAN. The department may or may not supply additional information. The chosen supplier has ongoing access to the statement and frequently drafts it.
Information on Assessment	The basis for assessment must be clearly stated in the tendering documents. All parties must receive the same information, and they have an equal chance to shape their tender to maximize the assessment.	There is no assessment information. No assessment scheme is developed a *priori*. The challenger is not furnished in advance with information on how the validity of the challenge will be assessed. It also has little ability to strategically shape its submission.
Clarification/Additional Information	All bidders have an equal right to ask questions and seek clarification. All bidders must be given equal access to the questions raised and the answers given.	There is no requirement in this area.
Assessment of Bids	All bids must be fairly assessed against the pre-established criteria set out in the call for proposals using the pre-established assessment methodology.	There is no requirement for a comparative assessment of the proposal of the challenger and the chosen supplier. No requirement exists for pre-established criteria or for a pre-established assessment methodology.

Source: Office of the Auditor General

29.69 The Public Accounts Committee discussed this observation at its hearing on our November Report. It recommended that the government stop treating sole-source contracts accompanied by an ACAN as competitive in its statistical reports. Our position on the issue remains unchanged; ACANs should not be combined with competitive contracts when calculating the competitiveness percentage. The reasons for our position are summarized in Exhibit 29.9. The effect of the current presentation in the Report is to seriously distort — that is, overstate — the extent of competitive contracting for many entities.

29.70 In examining the data, we found two instances of this distorting effect on the statistics. In both instances, contracts had been directed to a sole supplier. Government regulations required that this supplier be awarded these contracts. Even if another potential supplier existed, it could not have challenged this award or received the business. Nevertheless, an ACAN was posted for each of these contracts. Exhibit 29.9 compares the characteristics of a competitive situation. It is clear from this exhibit that these ACANs do not meet the test of competitiveness according to our criteria as listed in the left-hand column. We note that the Treasury Board Secretariat considers the contracts resulting from these ACANs to be competitive. As a result, the value of non-competitive contracts was reduced by $288 million, and the value of competitive contracts was increased by a corresponding amount. Adjusting the data for these two contracts would reduce the competitive contracting percentage for 1998 for the department involved from 47 percent to 43 percent.

29.71 The U.S. and the European Community generally report similar information on competition, although the levels of detail vary. Comparison of levels of competitive contracting using the 1998 Report indicates that, while Canada does not have the highest rate of competition, percentages for all three jurisdictions are comparable. A proper comparison cannot be carried out until all the significant deficiencies in the Report have been addressed.

29.72 Reasons for sole-sourcing. The reasons for sole-sourcing are highly relevant to anyone who is interested in knowing how well government contracting policy is being implemented with respect to competitiveness. For instance, parliamentarians have regularly expressed interest in receiving this information. In addition, the Standing Committee on Government Operations recommended in 1997 that the Treasury Board Secretariat place a high priority on eliminating information gaps in government contracting activity by requesting data from departments on competitive and non-competitive contracts, sole-source contracts, and the reasons for sole-sourcing. This information is important so that evaluations can be carried out to identify problems or issues that need to be addressed in implementing contracting policy. Although departments do collect certain information on the reasons, it is not presented in the Report. Exhibit 29.10 provides an example of the type of information that could be usefully presented in future reports.

29.73 The Treasury Board Secretariat should require that departments report which of the four justifications specified in the Government Contracts Regulations was used for not soliciting bids when using advance contract award notices and traditional non-competitive contracts.

29.74 The Treasury Board Secretariat should include information on the Government Contracts Regulations justification used for not soliciting bids in a schedule of the Annual Contracting Activity Report.

Treasury Board Secretariat's response: *The Purchasing Activity Report is used to provide a clear picture on competitive and*

The 1998 Annual Contracting Activity Report requires significant improvements with respect to each of the criteria areas we examined — validity, reliability, transparency and relevance.

non-competitive contracting processes as set out in the Contracting Policy. The government sees tools such as internal audits and reviews as a key way of assessing consistency with the competitive and non-competitive provisions of the government's policy and regulations within government departments and agencies. Internal audits are efficient and provide value-added information not achievable through data collection and are therefore the primary focus of the Secretariat's efforts.

In addition to direct queries to departments and agencies on individual contracts, interested parties may contact Contracts Canada (http://www.contractscanada.gc.ca) *for information on the justifications for not calling bids for approximately 85 percent of the contracts awarded in 1998, as these contracts are awarded by Public Works and Government Services Canada.*

The Secretariat will examine the business case for the above-noted recommendations with a view to identifying cost-effective ways to modify existing systems across other government departments and agencies for collecting information on government contracting, to move from 85 to 100 percent reporting on these additional details.

Conclusion

29.75 Overall assessment. Our audit found that the 1998 Annual Contracting Activity Report requires significant improvements with respect to each of the criteria areas we examined — validity, reliability, transparency and relevance. At the same time, we found that the basic systems required to develop a report that does not have these deficiencies are already in place. Some effort and a modest investment of resources will be needed to achieve this result. However, if the effort and investment of resources are made, the resulting information will support the production of a high-quality report on contracting activity, enable departmental managers to better manage their responsibilities for contracting, and ultimately support the Modernization of Comptrollership initiative.

Exhibit 29.10

Justification for Not Soliciting Bids

Justification for Not Soliciting Bids*	Solicitation Type					
	Sole Source with ACAN		Sole Source		Total	
	($ 000)	Percent	($ 000)	Percent	($ 000)	Percent
Exclusive Rights	$1,375,572	85.1	$233,468	53.5	$1,609,040	78.4
National Interest	$175,226	10.8	$119,306	27.3	$294,532	14.4
Extreme Urgency	$7,491	0.5	$23,937	5.5	$31,428	1.5
Low Dollar Value**	$10,524	0.7	$18,846	4.3	$29,370	1.4
None Given	$47,657	2.9	$41,118	9.4	$88,775	4.3
Total	**$1,616,470**	**100.0**	**$436,675**	**100.0**	**$2,053,145**	**100.0**

*These justifications are similar to the four permitted exceptions to solicit bids, outlined in Section 6 of the Government Contracts Regulations.

**It is unclear why this reason was selected as the contracts were all over the $25,000 threshold. It may be because they were under the threshold for the relevant trade agreement.

Source: Public Works and Government Services Canada, based on the original government-wide file. It does not include late contracts, the Canadian Security Intelligence Service or the Nato Flying Training in Canada Program contract.

Subsequent Event

29.76 On 3 October 2000, the Treasury Board Secretariat published a preliminary version of its report on contracting activity for 1999. The report is now entitled "1999 Purchasing Activity Report". We have not audited this report and therefore can offer no audit opinion on it. However, the new report does respond positively to many of the issues raised in this chapter, including the following:

- The information on acquisition card purchases is excluded from the schedule on primary contracting.
- The information on amendments is segregated in the schedule and additional information is provided in the notes.
- The Report has extensive explanatory notes addressing most of the issues that we discuss under Transparency in Reporting in the section beginning at paragraph 29.61.
- The data, while not final, are being issued on a preliminary basis and much earlier than were previous reports.

About the Audit

Objective

The objective of this audit was to examine the Treasury Board Secretariat's Annual Contracting Activity Report for 1998 and to report to Parliament on the results of our examination. We assessed the Report for validity, reliability, transparency and relevance.

The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report.

Scope

We looked at the quality of the data that departments submitted to Public Works and Government Services Canada and that PWGSC in turn submitted to the Treasury Board Secretariat for its Annual Contracting Activity Report. We also looked at the presentation of the data to assess its usefulness and relevance to readers. In doing so, we focussed on the extent to which the content of the Report reflects the substance and intent of the Government Contracts Regulations. We did not audit any departmental systems for capturing contracting data.

Criteria

Our criteria were derived from:

- an analysis of sections 5 and 6 of the Government Contracts Regulations and their interpretation in the Treasury Board policy;
- previous testimony and proceedings of the Standing Committee on Government Operations, Public Accounts Committee and their various reports since 1995;
- interviews with officials in the Treasury Board Secretariat and in Public Works and Government Services Canada;
- previous chapters on contracting in Reports of the Auditor General of Canada: 1991 – Chapters 18 and 19, 1997 – Chapter 6, 1998 – Chapter 26 and 1999 – Chapter 30; and
- the criteria for the audit of performance information developed by the Office of the Auditor General.

Approach

Contracting activity is carried out directly by departments or through PWGSC. For the two data streams managed by PWGSC, we derived most of our assurance from systems documentation and controls, supplemented by substantive testing.

Because of the widely dispersed data sources from departments, and prior observations during interviews carried out, we determined that post-submission controls are weak. Therefore, we relied mainly on substantive testing for assurance in this area.

Our substantive testing was carried out using a combination of dollar-unit sampling and high-value items. The testing consisted of:

- discussions held with the Treasury Board Secretariat, Public Works and Government Services Canada and a number of departments;
- analysis of documentation provided by the Secretariat and 25 line departments, including PWGSC on its own behalf and acting on behalf of other entities; and
- a survey of documentation supporting the classification by open bidding, traditional competitive, advanced contract award notice (ACAN) and traditional non-competitive approaches for 89 contracts equal to or greater than $10 million and 501 other contracts equal to or greater than $25,000.

The audit sample was identified and selected from the total population. All high-value contracts were chosen. The remainder were selected on the basis of a computer-generated random sampling framework for dollar-unit sampling. The results were adjusted to reflect the sampling design.

The following 25 entities were included in our selection:

Agriculture and Agri-Food Canada, Foreign Affairs and International Trade, Department of Justice, Correctional Service Canada, Natural Resources Canada, National Research Council Canada, Statistics Canada, National Revenue, Superintendent of Financial Institutions, Canadian International Development Agency, Canadian Centre for Management Development, Western Economic Development Canada, Citizenship and Immigration Canada, Canadian Heritage, Public Works and Government Services Canada, Fisheries and Oceans, Health Canada, Environment Canada, Royal Canadian Mounted Police, Transport Canada, Industry Canada, Human Resources Development Canada, National Defence, Canadian Space Agency.

Our audit did not include steps to determine whether the justification claimed for using an ACAN or the traditional non-competitive approach was justified; nor could we determine the appropriateness of using a traditional competitive approach instead of open bidding. Furthermore, we did not assess either the performance or the qualifications of the suppliers. No comments in the chapter should be construed as criticism of any supplier.

Reporting before 1996

In the late 1970s and early 1980s, departments provided a semi-annual report to the Treasury Board Secretariat on contracting for temporary help. In the 1980s, departments also provided an annual report on contracts for consulting and professional services. These requirements continued until April 1989.

In 1990, departments were asked to provide an annual report on contracting activities that replaced the two earlier reports. The result was a more concise report in 1991–92, with streamlining of reporting requirements.

From 1991–92 until 1993–94, departments and agencies, including Supply and Services Canada and Public Works Canada, submitted the information directly to the Treasury Board Secretariat. These reports included the activities of approximately 50 major entities. The exclusion of other federal entities was not considered to have a material impact on what was being reported. All information for the years since 1991–92 has been published on the Internet.

Starting in 1994-95, following the signing of the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) agreement, decisions were made to have PWGSC receive and compile all the data on behalf of the Treasury Board Secretariat that would form the basis of the Report. As Public Works and Government Services Canada was responsible for reporting under the trade agreements and much of the data were common, it made sense that the Department would take on the responsibility to gather and compile the data for the Report.

Recent audit activity by the Office of the Auditor General

Two Reports of the Auditor General further increased Parliament's interest in government contracting. In our December 1998 Report, we published the results of our audit, Contracting for Professional Services: Selected Sole-Source Contracts. This audit was the first of a number of audits on contracting done by departments and agencies.

In our November 1999 chapter, we reported the results of our audit of a sample of some 50 ACANs for services not involving goods, selected from a database maintained by an outside firm (MERX) under contract to PWGSC.

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Appendix A

The Treasury Board Secretariat's Annual Contracting Activity Report, 1998

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total value of contract awards and net amendments ($000) (Note 1)

Contract Type		Goods ($ 000)	(%)	Services ($ 000)	(%)	Construction ($ 000)	(%)	Total ($ 000)	(%)
Contracts below $25,000	Competitive	401,433	46.66	101,039	19.90	19,302	48.22	521,774	37.05
	ACANs	10,379	1.21	4,257	0.84	236	0.59	14,872	1.06
	Non-Competitive	448,508	52.13	402,499	79.26	20,489	51.19	871,497	61.89
	Subtotal	860,320	100.00	507,795	100.00	40,027	100.00	**1,408,142**	100.00
	Proportion							**10.5%**	
Contracts $25,000 and above	Competitive	2,845,760	69.03	2,857,928	38.70	462,169	88.99	6,165,858	51.27
	ACANs	838,090	20.33	958,965	12.99	16,371	3.15	1,813,426	15.08
	Non-Competitive	438,768	10.64	3,567,164	48.31	40,824	7.86	4,046,757	33.65
	Subtotal	4,122,618	100.00	7,384,057	100.00	519,364	100.00	**12,026,039**	100.00
	Proportion							**89.5%**	
All Contracts	Competitive	3,247,193	65.17	2,958,967	37.49	481,471	86.07	6,687,632	49.78
	ACANs	848,469	17.03	963,222	12.21	16,607	2.97	1,828,298	13.61
	Non-Competitive	887,276	17.81	3,969,663	50.30	61,313	10.96	4,918,253	36.61
Total		**4,982,938**	100.00	**7,891,852**	100.00	**559,391**	100.00	**13,434,181**	100.00
Proportions		**37.09%**		**58.74%**		**4.16%**		**100.0%**	

Breakdown: Contract Awards 11,431,517
Net Amendments 2,002,664
$ 13,434,181

Note 1 - The data include acquisition card transactions.

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total value of contract awards and net amendments ($000) (Note 1)
Excluding the service contract for the NATO Flying Training in Canada Program

Contract Type		Goods ($ 000)	(%)	Services ($ 000)	(%)	Construction ($ 000)	(%)	Total ($ 000)	(%)
Contracts below $25,000	Competitive	401,433	46.66	101,039	19.90	19,302	48.22	521,774	37.05
	ACANs	10,379	1.21	4,257	0.84	236	0.59	14,872	1.06
	Non-Competitive	448,508	52.13	402,499	79.26	20,489	51.19	871,496	61.89
	Subtotal	860,320	100.00	507,795	100.00	40,027	100.00	**1,408,142**	100.00
	Proportion							**13.5%**	
Contracts $25,000 and above	Competitive	2,845,760	69.03	2,857,928	65.13	462,169	88.99	6,165,857	68.28
	ACANs	838,090	20.33	958,965	21.85	16,371	3.15	1,813,426	20.08
	Non-Competitive	438,768	10.64	571,164	13.02	40,824	7.86	1,050,756	11.64
	Subtotal	4,122,618	100.00	4,388,057	100.00	519,364	100.00	**9,030,039**	100.00
	Proportion							**86.5%**	
All Contracts	Competitive	3,247,193	65.17	2,958,967	60.44	481,471	86.07	6,687,631	64.07
	ACANs	848,469	17.03	963,222	19.67	16,607	2.97	1,828,298	17.52
	Non-Competitive	887,276	17.81	973,663	19.89	61,313	10.96	1,922,252	18.42
Total		**4,982,938**	100.00	**4,895,852**	100.00	**559,391**	100.00	**10,438,181**	100.00
Proportions		**47.74%**		**46.90%**		**5.36%**		**100.0%**	

Breakdown: Contract Awards 8,435,517
Net Amendments 2,002,664
$ 10,438,181

Note 1: The data **include** acquisition card transactions, but **exclude** the non-competitive service contract (approved by the Cabinet) valued at $2.996 billion for the NATO Flying Training in Canada Program.

Appendix A (cont'd)

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total number of contracts (Note 1)

Contract Type		Goods	(%)	Services	(%)	Construction	(%)	Total	(%)
Contracts Below $25,000	Competitive	515,563	37.95	32,556	20.54	2,879	43.99	550,998	36.16
	ACANs	354	0.03	189	0.12	35	0.53	578	0.04
	Non-Competitive	842,655	62.03	125,779	79.34	3,630	55.47	972,064	63.80
	Subtotal	1,358,572	100.00	158,524	100.00	6,544	100.00	**1,523,640**	100.00
	Proportion							**98.69%**	
Contracts $25,000 and Above	Competitive	4,390	67.97	6,831	60.29	1,802	72.22	13,023	64.20
	ACANs	1,663	25.75	1,874	16.54	69	2.77	3,606	17.78
	Non-Competitive	406	6.29	2,625	23.17	624	25.01	3,655	18.02
	Subtotal	6,459	100.00	11,330	100.00	2,495	100.00	**20,284**	100.00
	Proportion							**1.31%**	
All Contracts	Competitive	519,953	38.09	39,387	23.19	4,681	51.79	564,021	36.53
	ACANs	2,017	0.15	2,063	1.21	104	1.15	4,184	0.27
	Non-Competitive	843,061	61.76	128,404	75.60	4,254	47.06	975,719	63.20
Total		**1,365,031**	100.00	**169,854**	100.00	**9,039**	100.00	**1,543,924**	100.00
Proportions		**88.41%**		**11.00%**		**0.59%**		**100.0%**	

Note 1: The data include acquisition card transactions.

We have consolidated the figures and changed the format from the Report on the Internet. It does not reflect the revision that incorporates 63 contracts below $25,000 and 100 contracts valued at $25,000 and above.

Source: Excerpt from 1998 Annual Contracting Activity Report.

Appendix A (cont'd)

1998 Annual Contracting Activity Report

	Below $25,000		Contracts $25,000 and above														Above $25,000 and below	
Department and Agency	Sub-total		Electronic Bidding		Trad. Competitive		ACANs		Competitive		Non-Competitive		Sub-total		% Comp.		Grand Total	
	#	$ (000)	#	$(000)	#	$(000)	#	$ (000)	#	$ (000)	#	(000)	#	$(000)	#	(000)	#	(000)
Agriculture and Agri-Food Canada	50,960	27,351	156	43,372	80	20,865	92	16,822	328	81,059	102	6,131	430	87,190	76.3%	93.0%	51,390	114,541
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Atomic Energy Control Board	399	3,055	7	521	3	208	16	2,264	26	2,993	24	1,114	50	4,107	52%	73%	449	7,162
Auditor General	1,682	5,398	1	482	3	162	0	0	4	644	24	997	28	1,641	14%	39%	1,710	7,039
Canada Information Office	1,216	2,928	1	1,070	20	5,051	0	0	21	6,121	15	785	36	6,906	58%	89%	1,252	9,834
Canada Labour Relations Board	0	0	1	25	0	0	0	0	1	25	0	0	1	25	100%	100%	1	25
Canadian Centre for Management Development	679	1,954	0	0	15	1,059	0	0	15	1,059	7	269	22	1,328	68%	80%	701	3,282
Canadian Centre for Occupational Health & Safety	78	139	2	217	0	0	0	0	2	217	2	3,170	4	3,387	50%	6%	82	3,526
Canadian Food Inspection Agency	25,791	8,399	8	1,137	18	1,714	10	1,295	36	4,146	28	1,343	64	5,489	56%	76%	25,855	13,888
Canadian Heritage	42,121	43,660	136	38,944	143	18,605	29	2,522	308	60,071	79	4,497	387	64,568	80%	93%	42,508	108,228
Canadian Human Rights Commission	1,542	2,165	2	100	3	277	0	0	5	377	0	0	5	377	100%	100%	1,547	2,542
Canadian Intergovernmental Conference Secretariat	1	20	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	20
Canadian International Development Agency	5,477	8,195	278	176,959	86	31,135	54	23,152	418	231,246	60	14,249	478	245,495	87%	94%	5,955	253,690
Canadian International Trade Tribunal	803	1,233	4	490	3	544	0	0	7	1,034	3	95	10	1,129	70%	92%	813	2,362
Canadian Radio-Television & [illegible]	853	1,620	1	220	3	196	0	0	4	416	3	180	7	596	57%	70%	860	2,216
Canadian Space Agency	2,703	7,467	47	226,701	44	18,796	116	41,750	207	287,247	37	9,881	244	297,128	85%	97%	2,947	304,595
Canadian Transportation Agency	892	887	0	0	1	35	0	0	1	35	0	0	1	35	100%	100%	893	922
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Commissionaires [illegible]	273	142	1	1	0	0	0	0	0	0	0	0	0	0	0	0	273	142
Commissioner for Federal Judicial Affairs	310	547	0	0	1	45	0	0	1	45	11	703	12	748	8%	6%	322	1,295
Commissioner of Official Languages	401	838	0	0	0	0	0	0	0	0	1	55	1	55	0%	0%	402	893
Competition Tribunal	178	37	0	0	0	0	0	0	0	0	1	100	1	100	0%	0%	179	137
Correctional Service Canada	113,154	112,948	519	91,479	385	67,033	239	105,274	1,143	263,786	271	33,995	1,414	297,781	81%	89%	114,568	410,729
Emergency Preparedness Canada	7	103	4	200	0	313	0	0	4	513	1	37	5	550	80%	93%	12	653
Environment Canada	40,974	29,577	318	40,684	38	14,605	139	19,057	495	74,346	178	8,209	673	82,555	74%	90%	41,647	112,132
Federal Court of Canada	1,108	1,590	1	30	0	259	1	169	2	458	10	433	12	891	17%	51%	1,120	2,481
Federal Office of Regional Development [illegible]	660	1,910	18	1,725	1	839	2	118	21	2,682	5	269	26	2,951	81%	91%	686	4,861
Finance	4,461	4,527	10	5,753	7	1,006	12	1,421	29	8,180	15	1,441	44	9,621	66%	85%	4,505	14,148
Fisheries & Oceans	207,801	144,878	376	62,412	847	134,587	186	23,287	1,409	220,286	260	20,015	1,669	240,301	84%	92%	209,470	385,179
Foreign Affairs and International Trade	10,389	24,963	54	30,095	91	36,398	63	14,034	208	80,527	104	6,435	312	86,962	67%	93%	10,701	111,925
Hazardous Materials Information Review [illegible]	112	18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	112	18
Health Canada	70,456	55,128	99	14,726	61	12,318	196	25,143	356	52,187	258	18,323	614	70,510	58%	74%	71,070	125,638
Human Resources Development Canada	62,661	58,799	68	15,427	76	55,251	160	47,083	304	117,761	108	8,348	412	126,109	74%	93%	63,073	184,908
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indian & Northern Affairs Canada	26,472	35,494	127	60,620	122	28,785	41	9,701	290	99,106	134	22,750	424	121,856	68%	81%	26,896	157,350

Appendix A (cont'd)

	Below $25,000		Contracts $25,000 and above														Above $25,000 and below	
Department and Agency	Sub-total		Electronic Bidding		Trad. Competitive		ACANs		Competitive		Non-Competitive		Sub-total		% Comp.		Grand Total	
	#	$ (000)	#	$(000)	#	$(000)	#	$ (000)	#	$ (000)	#	(000)	#	$(000)	#	(000)	#	(000)
Industry Canada	33,089	63,612	74	32,681	445	27,714	138	23,348	657	83,743	270	12,254	927	95,997	71%	87%	34,016	159,609
Justice	6,816	11,856	47	19,349	29	4,609	44	5,123	120	29,081	63	3,651	183	32,732	66%	89%	6,999	44,588
Medical Research Council	471	809	0	0	9	939	0	0	9	939	10	1,000	19	1,939	47%	48%	490	2,748
Natural Sciences & Engineering Research Council	1,394	1,155	1	143	12	742	0	0	13	885	0	0	13	885	100%	100%	1,407	2,040
National Archives	6,947	6,204	10	1,290	2	493	7	630	19	2,413	7	297	26	2,710	73%	89%	6,973	8,914
National Defence	334,210	212,896	2,137	1,217,055	808	812,503	939	1,154,138	3,884	3,183,696	359	3,601,880	4,243	6,785,576	92%	47%	338,453	6,998,472
National Energy Board	579	1,354	4	395	14	1,470	6	1,211	24	3,076	1	-93	25	2,983	96%	103%	604	4,337
National Film Board	1,377	373	6	1,067	2	114	1	116	9	1,297	0	0	9	1,297	100%	100%	1,386	1,670
National Library of Canada	2,141	2,279	2	1,000	0	0	6	684	8	1,684	0	-22	8	1,662	100%	101%	2,149	3,941
National Parole Board	987	484	1	170	2	56	0	0	3	226	0	0	3	226	100%	100%	990	710
National Research Council	39,308	51,519	118	30,194	71	14,592	167	21,430	356	66,216	67	3,967	423	70,183	84%	94%	39,731	121,702
Natural Resources Canada	77,254	84,980	169	25,537	93	15,184	200	19,223	462	59,944	68	4,149	530	64,093	87%	94%	77,784	149,073
Office of the Chief Electoral Officer	575	188	4	719	8	5,709	3	2,930	15	9,358	0	354	15	9,712	100%	96%	589	9,900
Office of the Superintendent of Financial Institutions	1,081	2,054	0	0	6	7,813	0	0	6	7,813	14	886	20	8,699	30%	90%	1,101	10,753
Patented Medicine Prices Review Board	328	323	1	131	1	54	0	0	2	185	0	0	2	185	100%	100%	330	508
Privacy Commissioner of Canada	634	930	0	0	1	26	0	0	1	26	1	50	2	76	50%	34%	636	1,006
Privy Council Office	1,760	3,894	8	4,147	9	4,228	4	281	21	8,656	8	462	29	9,118	72%	95%	1,789	13,012
Public Service Commission	6,065	9,042	43	2,541	58	4,054	5	380	106	6,975	37	1,054	143	8,029	74%	87%	6,208	17,071
Public Works and Government Services Canada	114,017	171,969	1,442	947,817	1,177	1,072,396	292	117,910	2,911	2,138,123	697	215,808	3,608	2,353,931	81%	91%	117,625	2,525,900
RCMP Public Complaints Commission	767	936	0	0	12	765	1	35	13	800	0	0	13	800	100%	100%	780	1,736
Revenue Canada	76,138	62,497	188	99,293	573	73,044	133	35,937	894	208,274	75	12,188	969	220,462	92%	94%	77,107	282,959
Royal Canadian Mounted Police	50,647	28,023	190	44,370	191	23,262	110	33,733	491	101,365	118	13,104	609	114,469	81%	89%	51,256	142,492
Social Sciences & Humanities Research Council	176	499	0	0	6	313	0	0	6	313	0	0	6	313	100%	100%	182	812
Solicitor General Canada	729	2,057	1	43	9	715	3	116	13	874	2	131	15	1,005	87%	87%	744	3,062
Statistics Canada	15,310	20,255	69	5,978	19	4,312	49	4,050	137	14,340	11	589	148	14,929	93%	96%	15,458	35,184
Status of Women	166	723	0	0	18	1,171	0	0	18	1,171	0	21	18	1,192	100%	98%	184	1,915
Supreme Court of Canada	1,012	664	1	76	1	66	0	0	2	142	2	68	4	210	50%	68%	1,016	874
Tax Court of Canada	346	72	0	0	0	0	0	0	0	0	0	0	0	0	0	0	346	72
Transport Canada	44,930	43,672	229	55,419	106	30,950	78	16,339	413	102,708	54	4,934	467	107,642	88%	95%	45,397	151,314
Transportation Safety Board	3,453	1,523	2	78	14	2,274	4	5,266	20	7,618	3	760	23	8,378	87%	91%	3,476	9,901
Treasury Board	5,054	4,602	3	207,363	33	5,417	5	273	41	213,053	12	988	53	214,041	77%	100%	5,107	218,643
Veterans Affairs Canada	8,563	11,005	71	14,414	23	14,296	32	30,827	126	59,537	16	810	142	60,347	89%	99%	8,705	71,352
Western Economic Diversification	2,652	4,225	3	248	9	774	1	231	13	1,253	4	276	17	1,529	76%	82%	2,669	5,754
Total	**1,523,640**	**1,408,134**	**7,168**	**3,558,349**	**5,855**	**2,607,517**	**3,606**	**1,813,423**	**16,629**	**7,979,289**	**3,655**	**4,046,760**	**20,284**	**12,026,049**	**82%**	**66%**	**1,543,924**	**13,434,183**

The Auditor General's power to enter into contracts for professional services is not subject to the Government Contracts Regulations (GCR) but rather to subsection 15(2) of the *Auditor General Act*. The Auditor General's Policy on Contract for Professional Services requires that contracts where the fees are greater than $25,000 be let on a competitive basis except for those that meet one of the criteria for exemption. Seventeen of the 24 contracts reported above had fees valued at below $25,000.

Note: Totals might not add due to rounding.

Source: Excerpt from 1998 Annual Contracting Activity Report.

Appendix B

Government Policy on Contracting

"The objective of government contracting is to acquire goods and services and to carry out construction in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people.

Government contracting shall be conducted in a manner that will:

(a) stand the test of public scrutiny in matters of prudence and probity, facilitate access, encourage competition, and reflect fairness in the spending of public funds;

(b) ensure the pre-eminence of operational requirements;

(c) support long-term industrial and regional development and other appropriate national objectives, including Aboriginal economic development;

(d) comply with the government's obligations under the North American Free Trade Agreement, the World Trade Organization Agreement on Government Procurement and the Agreement on Internal Trade."

Source: Treasury Board of Canada Secretariat - Contracting Policy Manual

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

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Report of the Auditor General of Canada to the House of Commons

Chapter 30
Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

December 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 30

Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks



December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 30

Fisheries and Oceans

The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	30-5
Introduction	30-7
Size and status of salmon farming industry	30-7
Focus of the audit	30-10
Observations and Recommendations	30-12
Departmental Mandate to Conserve and Protect Wild Salmon and Habitat	30-12
A policy framework for the conservation and protection of wild salmon stocks	30-12
Development of a Management Plan for Salmon Farming	30-13
Lack of a formal plan to manage risks	30-13
Environmental assessment carried out by British Columbia	30-13
Developing a Regulatory Framework	30-13
Regulatory and Co-ordination Issues Requiring Attention	30-14
A need for science support	30-14
Inadequate monitoring and enforcement	30-14
Problems with enforcing compliance	30-15
Use of Siting Criteria	30-16
Siting of salmon farms used as alternative to monitoring and enforcement	30-16
Lack of a scientific basis for siting criteria	30-16
Assessment of Cumulative Effects	30-17
Recent evidence and risks to be considered in environmental assessments	30-17
Review of environmental effects is needed before lifting moratorium	30-17
Shortfalls in Research and Monitoring to Assess Effects	30-17
Research needs not fully identified nor priorities established	30-17
Recent evidence on interactions between Atlantic and Pacific salmon requires attention	30-18
Research on genetically modified and sterile salmon	30-20
No monitoring of sensitive coastal habitat adjacent to farm sites	30-21
No regular monitoring of wild salmon stocks adjacent to farm sites	30-21
Inadequate monitoring for the presence of Atlantic salmon	30-21
Resolution of Federal-Provincial Issues	30-23
Action taken to co-ordinate efforts	30-23
More work is needed to resolve issues	30-24
Conclusion	30-25
About the Audit	30-28

Page

Exhibits

30.1	Location of Salmon Farms in British Colombia	30-7
30.2	British Columbia Production of Farmed Salmon by Species	30-9
30.3	World Production of Farmed Salmon and Sea Trout by Country	30-9
30.4	Life Cycle of Pacific Salmon	30-10
30.5	Status of Knowledge/ Information Gaps on the Interactions Between Atlantic and Pacific Salmon	30-19
30.6	Catch Data for Adult Atlantic Salmon in the British Columbia Marine Environment, 1988–1999	30-22
30.7	Sightings and Catch Data for Adult Atlantic Salmon in the British Columbia Freshwater Environment, 1990–1999	30-23

Fisheries and Oceans

The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

Main Points

30.1 Fisheries and Oceans is managing the salmon farming industry on the basis that it poses an overall low risk to wild salmon and habitat. However, the Department is not fully meeting its legislative obligations under the *Fisheries Act* to protect wild Pacific salmon stocks and habitat from the effects of salmon farming. We found that the Department:

- is not fully carrying out its current regulatory responsibilities to enforce the *Fisheries Act* with respect to salmon farming operations;
- is engaged in research and is working with the Province of British Columbia (B.C.) to develop a regulatory framework for salmon farming, but there are shortfalls in research and monitoring to assess the effects of salmon farming operations; and
- has not put in place a formal plan for managing risks and for assessing the potential cumulative environmental effects of proposals for new sites, should the decision be made to expand the industry.

30.2 There is an urgent need for the Department to address these shortcomings in consultations with the Province if their goal of ensuring the co-existence of sustainable salmon fishing with the farming industry is to be achieved. The Department has recently obtained additional funds, which it plans to use to respond to industry and public concerns. Some projects include habitat management, further study on the environmental effects of aquaculture operations on fish habitat, and the effects of farmed and wild stock interaction. The Department has also notified the Province of B.C. and the salmon farming industry that it intends to begin assessing all fish farm operations to ensure that they are in compliance with the *Fisheries Act*.

Background and other observations

30.3 This is our third audit since 1997 of the Department's Pacific salmon management programs. In previous chapters we reported on habitat protection and management of the salmon fisheries. We found that loss of salmon habitat continued and that some wild salmon stocks were declining. Salmon farming has the potential to create additional stress on wild salmon stocks over time, especially if the industry expands. We found that the Department has not developed a plan to evaluate and manage the risks in the long term.

30.4 Reaching conclusions on the effects of salmon farming is difficult because there have been few scientific studies that apply directly to the B.C. situation. Recent scientific evidence of escaped Atlantic salmon reproducing in B.C. streams, and the potential for expansion of the industry, are raising new questions regarding effects on wild salmon stocks, including the cumulative effects on the environment and fisheries resources.

30.5 Atlantic salmon are raised initially in freshwater hatcheries, and at the juvenile stage they are transferred to open net pens in marine coastal waters in B.C. to complete their growth. They are harvested as adult salmon. It is while they are being reared in open net pens that possible interactions with wild salmon and their habitat can occur. Furthermore, open net pens are vulnerable to damage, which can result in escapes of farmed salmon.

The Department concurs with the contents of the chapter.

Introduction

Size and status of salmon farming industry

30.6 British Columbia's salmon farming industry can be traced back to the early 1970s. Farms were concentrated originally in the Sechelt/Sunshine Coast and Campbell River areas and later on the northeast and west coasts of Vancouver Island, as cooler water provided better conditions for raising fish (see Exhibit 30.1). In the last decade, production has grown steadily. Today, 17 salmon farming companies, including 3 of the world's largest, operate 105 active salmon farms in British Columbia (B.C.). Farm production is dominated by Atlantic salmon (81 percent), followed by chinook (16 percent) and coho salmon (3 percent) (see Exhibit 30.2). North Vancouver Island has become the most active production area, accounting for over 50 percent of the provincial output. In 1999, the industry estimated that it had generated 1,800 direct jobs and 1,600 indirect jobs, and contributed $677 million to the B.C. economy. This represented a 10 percent increase from 1998. Salmon farming has become an established industry in B.C. and is a significant contributor to the Province's economy.

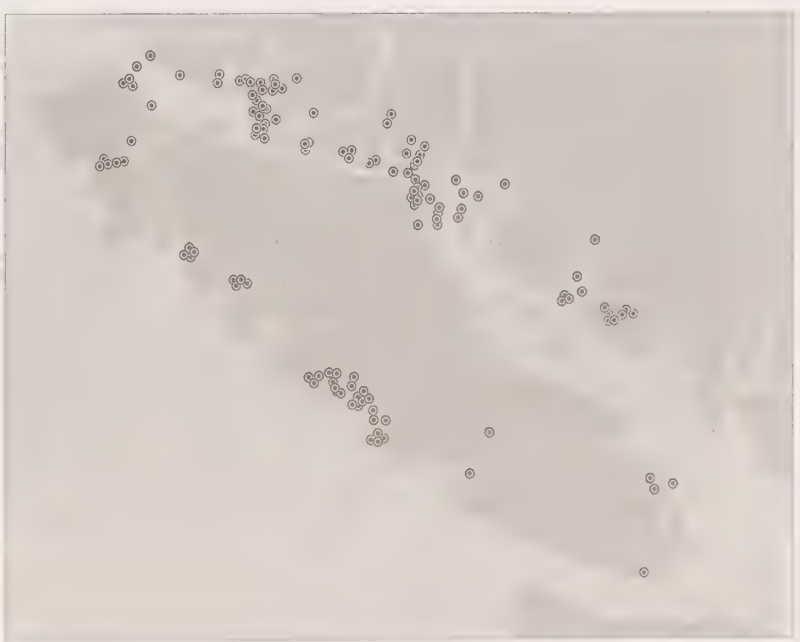
30.7 Canada is the fourth largest farmed salmon producer in the world after Norway, Chile and the United Kingdom; in 1999 it produced five percent of the world's farmed salmon. B.C.'s share was 49,100 metric tonnes, nearly 70 percent of Canadian production. In 1999, B.C. exported 77 percent of its farmed salmon, valued at $308 million. The United States was the main consumer, with the balance sold either domestically or in Japan and Taiwan. Markets for farmed salmon are expanding (see Exhibit 30.3).

30.8 In 1995, the Province of British Columbia, in consultation with Fisheries and Oceans, implemented a moratorium on expansion of the salmon farming industry; this was in response to public concern about the effects of the industry on wild salmon stocks and the marine environment. Indications are that the moratorium may be lifted in two to three years pending the development of a regulatory framework for managing farming operations, an evaluation of industry compliance, technical developments, and consultation with coastal communities. A public poll on salmon farming in B.C. reported in 1999 that 69 percent of respondents would support expansion, assuming the guidelines in the B.C. Salmon Aquaculture Review are turned into workable regulations. The primary concern facing governments is how to address current and emerging environmental and ecological issues that are associated with the industry, and to ensure that the wild salmon stocks are not adversely affected any time during their life cycle (see Exhibit 30.4). It is in the Department's and B.C.'s mutual interest to create an environment in which wild

Salmon farming has become an established industry in British Columbia.

Exhibit 30.1

Location of Salmon Farms in British Colombia



Source: Fisheries and Oceans, Pacific Region, Habitat and Enhancement Branch









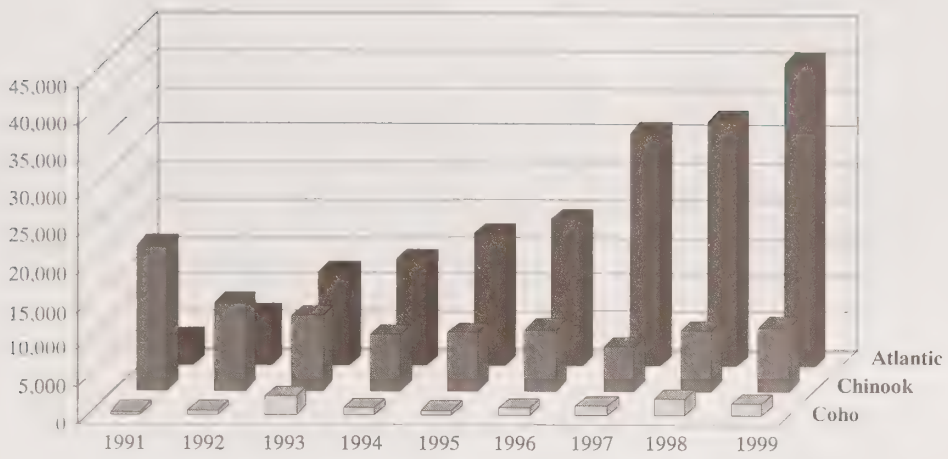


Examples of salmon farm open net pens in marine coastal British Columbia (see paragraph 30.6).

Exhibit 30.2

British Columbia Production of Farmed Salmon by Species

(round tonnes)

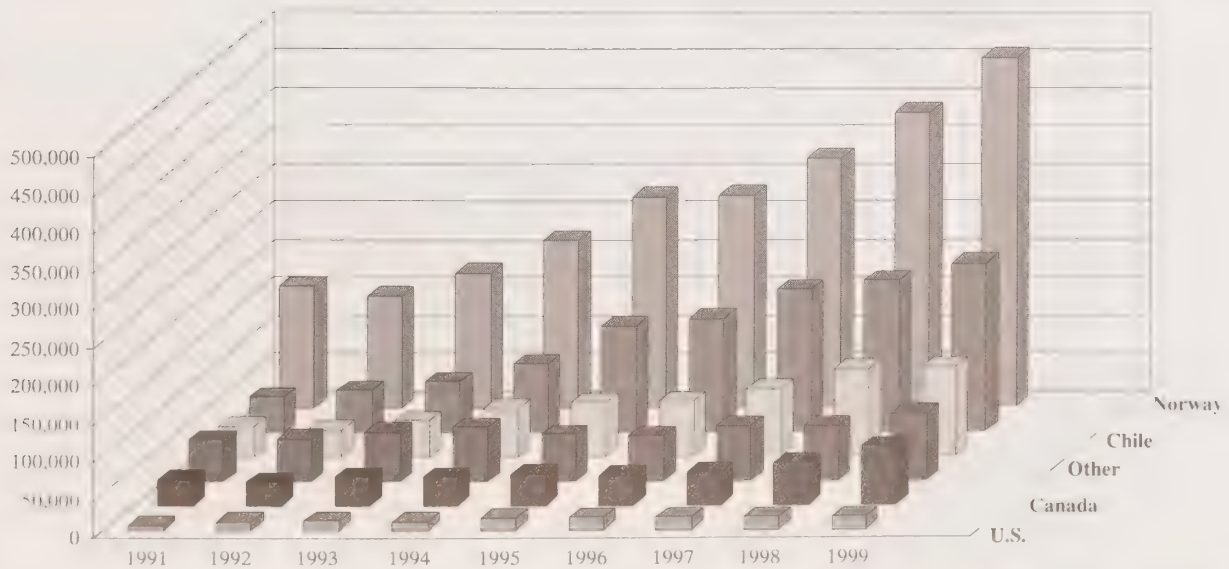


Source: British Columbia Salmon Farmers' Association

Exhibit 30.3

World Production of Farmed Salmon and Sea Trout by Country

(metric tonnes rounded weight)



Source: British Columbia Salmon Farmers' Association

salmon and the farming industry can co-exist, thus maximizing sustainable economic benefits.

30.9 The Department has a lead role in determining this outcome, given its responsibilities for conserving and protecting wild Pacific salmon stocks and their habitats under the *Fisheries Act* and its emerging role in coastal zone management under the *Oceans Act*.

There are conflicting views on the effects of salmon farming on wild salmon stocks and the environment.

30.10 There are conflicting views on the effects of salmon farming on wild salmon stocks and the environment. Expert opinion on the probabilities and consequences of such effects is diverse, emphasizing the uncertainty surrounding the issue at this time.

Focus of the audit

30.11 This is our third audit of Fisheries and Oceans' Pacific salmon management programs. The first, reported in 1997, examined the Department's management of the resource base, concentrating on the conservation of salmon habitat. The second, reported in 1999, examined the Department's management of the salmon fisheries.

30.12 The objective of the current audit was to determine whether the Department, as the agency responsible for the conservation and protection of wild salmon stocks, is meeting its obligations under the *Fisheries Act* and the *Oceans Act,* while participating in the regulation of the salmon farming industry in B.C. The *Oceans Act* deals with the conservation, management and exploitation of marine resources. These resources will be managed through an Oceans Strategy being developed by the Department in consultation with those departments and agencies having marine responsibilities. Both the salmon fishing and salmon farming industries will be managed within this context. The Minister of Fisheries and Oceans is responsible for enforcing the provisions of both the *Fisheries Act* and the *Oceans Act* in their entirety.

30.13 As no relevant regulations have yet been developed under the *Oceans Act,* our audit focussed on the *Fisheries Act*. The audit examined aspects of the Department's regulatory role in this area, including its operational responses to current and emerging environmental and ecological problems posed by the industry. We did not focus on the industry itself other than to familiarize ourselves with salmon farming operations by visiting several salmon farms and by gathering facts and statistics through interviewing key industry personnel and examining industry publications. We did not include the Department's salmon enhancement program in the scope of this audit.

30.14 Further details on the audit are found at the end of the chapter in **About the Audit.**

Exhibit 30.4

Life Cycle of Pacific Salmon



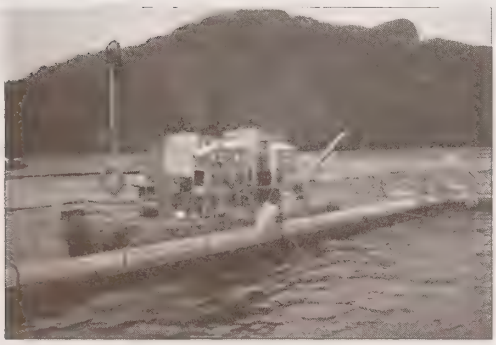
Source: Fisheries and Oceans



Open net pen setup



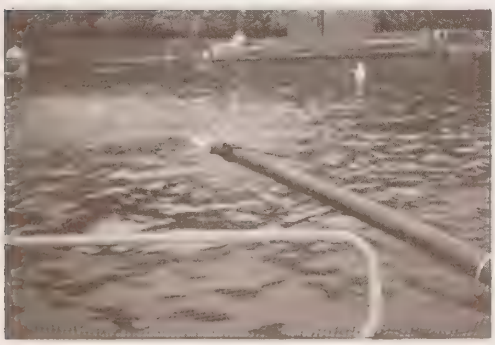
Protecting young salmon from predators



Feeding salmon manually



Harvesting adult salmon from pens



Automatic feeding system



Sorting Atlantic salmon for harvest

Examples of salmon farming operations in British Columbia (see paragraph 30.13).

Observations and Recommendations

Departmental Mandate to Conserve and Protect Wild Salmon and Habitat

Federal and provincial jurisdictions overlap in the regulation of fish farming.

30.15 Fisheries and Oceans' mandate requires it to conserve and protect wild salmon and its habitat. The primary vehicle for the regulation of effects on fish and fish habitat is the federal *Fisheries Act*. Sections 35 and 36 prohibit the harmful alteration, disruption or destruction (HADD) of fish habitat and the deposit of any amount of a deleterious substance, though the Department can authorize HADD or develop regulations governing the release of deleterious substances. Where an activity is likely to result in HADD or in the deposit of a deleterious substance, the Minister is authorized under section 37 to request information about planned activities and to require modifications or restrict the proposed activity. These sections of the *Fisheries Act* provide the basis for the Department's role in reviewing applications and setting conditions for salmon farming licences submitted to the Province of B.C.

30.16 Regulations under which the Department carries out its regulatory role with respect to salmon farming include the Fish Health Protection Regulations, Marine Mammal Regulations, and the Fisheries Regulations (General).

Under its new Strategic Plan, the Department uses a precautionary approach when making decisions.

30.17 Since federal and provincial jurisdictions overlap in the regulation of fish farming, separating the authority held by the parties is sometimes difficult. Fisheries and Oceans and B.C. came to an agreement on responsibilities and co-ordination of activities in their 1988 Memorandum of Understanding (MOU) on Aquaculture Development. Under the MOU, B.C. has the primary responsibility for management and development of the aquaculture industry in consultation with Fisheries and Oceans. The Department retains regulatory responsibility in a number of areas, including conservation and protection of fish and fish habitat.

A policy framework for the conservation and protection of wild salmon stocks

30.18 Fisheries and Oceans has several key policies and strategies that direct its actions to conserve and protect wild salmon stocks; these are its Strategic Plan (2000), its Policy for the Management of Fish Habitat (1986), and A New Direction for Canada's Pacific Salmon Fisheries (1998). These strategies and policies reflect Canada's international commitments to the precautionary approach, to be implemented through the *Fisheries Act* and the *Oceans Act*.

30.19 The new Strategic Plan confirms conservation of resources as one of the Department's highest priorities. Under the Plan, the Department is to use a precautionary approach when making decisions. The Pacific Regional office has developed its own strategic plan that recognizes the need to conserve and protect oceans, and to manage resources to ensure sustainability. The plan's focus is on safeguarding biological diversity and maintaining the economic potential of the ocean and its resources. Principles for managing salmon and salmon fisheries are embodied in the New Direction for Canada's Pacific Salmon Fisheries and will also be developed in subsequent policies, such as the Wild Salmon Policy, now at the draft stage.

30.20 The Department released the draft Wild Salmon Policy for consultation in March 2000. At the conclusion of our audit, the Department was still holding consultations on the draft, and was aiming to finalize the policy in spring 2001. This policy, according to the Department, is not meant to address industry-specific operational questions. The development of an operational policy and plan that would

set clear priorities for decisions on conserving and protecting wild salmon stocks from any effects of salmon farming will follow. However, the Department has not yet indicated when it will release such a policy.

Development of a Management Plan for Salmon Farming

Lack of a formal plan to manage risks

30.21 As a regulator of the effects of salmon farming on wild salmon, the Department is in the business of risk management. Although it is addressing the risks associated with present farming operations, it has no formal plan for managing risks associated with an expanded industry should the moratorium be lifted.

Environmental assessment carried out by British Columbia

30.22 Rather than conduct its own risk assessment, the Department participated in the provincial Salmon Aquaculture Review (SAR), which was completed in 1997. The SAR was a comprehensive environmental assessment of salmon farming. It provided 49 recommendations to mitigate potential risks/effects of salmon farming on the environment. The technical advisory team for the provincial Review was tasked with evaluating all the available scientific literature, research and observational information available at the time.

30.23 The Department has accepted the SAR's conclusion that salmon farming poses a low risk to wild Pacific stocks and has based its actions on this level of risk. It should be noted that the Review was based on existing production levels and practices and was not meant to prejudge the outcome of environmental assessments of future growth in the industry. Such assessments would need to take into account increased knowledge and awareness of environmental issues, as well as improvements resulting from the implementation of the SAR recommendations.

Developing a Regulatory Framework

30.24 Canada is taking an advocacy role in aquaculture and has national strategies to guide this work; the centrepiece is the Federal Aquaculture Development Strategy (FADS), introduced in 1995, with Fisheries and Oceans as the lead department. The Strategy also recognizes the Department's responsibility for fish conservation and protection and requires its aquaculture development activities to be sustainable.

The Department is in the business of risk management.

30.25 The FADS makes two separate commitments to conduct legislative reviews. These are:

- to undertake a comprehensive review of all federal legislation and any accompanying regulations to identify and remove, where appropriate, constraints to aquaculture development; and

- to develop and implement a responsive and effective regulatory and policy framework to ensure that aquaculture is conducted in an environmentally sustainable manner, in co-operation with the provinces/territories and industry.

Some progress has been made in developing a regulatory framework.

30.26 The Commissioner for Aquaculture Development, who reports to the Minister of Fisheries and Oceans, is conducting a legislative review, and has made recommendations for removing constraints and ensuring that there are controls in place to safeguard the environment. It is important that, in response to these recommendations, the Department give appropriate consideration to environmental issues, in accordance with its mandate.

Regulatory and Co-ordination Issues Requiring Attention

30.27 In 1977 Fisheries and Oceans developed Fish Health Protection Regulations under the *Fisheries Act* to minimize the potential for introducing or transferring diseases of salmonids. At the time of the Salmon Aquaculture Review, egg importation to the Pacific region was permitted only for research or broodstock development programs. The Department plans revisions to the regulations to meet new and emerging international standards and to broaden the regulations to include all finfish.

It is unclear to what extent wild salmon are affected when they are in the vicinity of farming operations.

30.28 As noted earlier, salmon farming effects are to be regulated through sections 35 and 36 of the *Fisheries Act,* which prohibit the harmful alteration, disruption or destruction (HADD) of fish habitat and the deposit of deleterious substances. Such substances — for example, products used to suppress the build up of marine growth on nets — may be used in salmon farming. Others may be produced when there is buildup and decomposition of organic material (uneaten food and feces) on the ocean floor. When decomposition takes place in the absence of oxygen, hydrogen sulfide may be produced, which is harmful to marine life. It is a widely held view within the Department and the environmental community that salmon farming (in some instances) has had such effects on fish habitat under and adjacent to net pens. However, it is unclear at this time if, and to what extent, wild salmon are affected when they are in the vicinity of farming operations.

A need for science support

30.29 Fisheries and Oceans is still considering how the *Fisheries Act* is to be applied to salmon farming. This relates specifically to the use of HADD authorizations or the development of regulations to allow the deposit of a deleterious substance at certain levels (yet to be determined). The Department is currently conducting and participating in research with a view to determining how to enforce the *Fisheries Act* in keeping with the principle of "no net loss of habitat" embodied in the Policy for the Management of Fish Habitat. Some of these issues are being considered through a National Habitat Management Working Group on Aquaculture, although progress is slow. Under the Department's Environmental Science Strategic Research Fund, departmental scientists are conducting studies of the effects of salmon farming at the sites and further afield. The studies will aid the Department in defining the broad scale effects of aquaculture on fish habitat. In our opinion, such studies need to include the effects on Pacific salmon of contaminants in the water column in the vicinity of the net pens.

Salmon farms are not monitored for effects on fish and fish habitat.

Inadequate monitoring and enforcement

30.30 Fisheries and Oceans is not ensuring that salmon farms are monitored for effects on fish and fish habitat, with a view to enforcing the *Fisheries Act*. A major constraint to enforcing habitat provisions is the Department's lack of scientific information that would enable it to develop administrative criteria for what constitutes harmful alteration, disruption or destruction (HADD) of habitat with respect to salmon farming. Without such information, field officers do not know how to monitor farming activities to ascertain compliance with the Act.

30.31 The Department is not currently monitoring effects on marine habitat or on juvenile or adult Pacific salmon in the vicinity of net cages. However, earlier this year, the Department became involved in a provincially led Technical Advisory Group that is working to co-ordinate monitoring activities between governments and with industry. The Department has also received funding for aquaculture-related activities, including $22.5 million (nation-wide) for an improved management and regulatory framework. Enhanced monitoring

including the assessment of the effectiveness of new regulations may be part of this package, though information on specific activities has yet to be released.

30.32 Responsibility for administering section 36 of the *Fisheries Act* (dealing with deleterious substances) has been delegated to Environment Canada, under the terms of a 1985 Fisheries and Oceans/Environment Canada Memorandum of Understanding (MOU); however, Fisheries and Oceans retains ultimate authority for all sections of the *Fisheries Act*. A 1987 Regional Working Agreement for the B.C. and Yukon Region on the same subject further delineates responsibilities. We found that the MOU and Agreement contained clear accountability requirements, along with a means to revisit the terms of the agreements if they were not functioning properly.

30.33 There is a problem with how Environment Canada is carrying out its monitoring responsibilities under the MOU and the Agreement. In practice, Environment Canada is monitoring the effects of salmon farming only on shellfish beds and not on salmon and their habitat. Therefore, the commitments it made with respect to salmon farming are not being fully implemented.

30.34 Both departments are aware of the limited coverage under section 36. Officials told us that Environment Canada has committed to establishing a working group, including Fisheries and Oceans, to report on the desirability of a section 36 regulation to deal with deleterious substances by 2001. However, if Environment Canada is unable or unwilling to take action on section 36 responsibilities, the onus is on Fisheries and Oceans, as the responsible authority, to do so.

Problems with enforcing compliance

30.35 Under the *Fisheries Act*, the Department can authorize salmon farming activities that may bring about the harmful alteration, disruption or destruction of habitat (HADD). It has not done this; yet there is a widely held view within the Department that salmon farming, in some instances, has had some highly negative effects on fish habitat. No salmon farm operator has been prosecuted under the *Fisheries Act* for the release of a deleterious substance having an impact on fish habitat. However, the courts have interpreted the *Fisheries Act* broadly and have found that it applies even where the impact may be limited or indirect, if the impact threatens fish or fish habitat. For example, in our opinion, the definition of HADD would then apply to any contamination of waters used by Pacific salmon at any time during their life cycle.

No salmon operator has been prosecuted under the *Fisheries Act* for the release of a deleterious substance having an impact on fish habitat.

30.36 A private prosecution was recently lodged against a salmon farm operator. However, the Crown Counsel of the federal Department of Justice stayed the charges on the grounds that licensing of the site (with knowledge of the effects) would reduce the chances of a conviction. It was acknowledged that there was evidence of damage to the sea bed below and adjacent to the salmon farm. Fisheries and Oceans recently informed salmon farmers that, in light of Crown Counsel's findings, it intends to enforce the *Fisheries Act* with respect to salmon farming; but it has not yet provided information on how it will determine the administrative criteria for HADD and (if a regulation is developed) for deleterious substances.

30.37 Fisheries and Oceans should act immediately to strengthen its monitoring and enforcement capabilities for salmon farming operations.

Use of Siting Criteria

Siting of salmon farms used as alternative to monitoring and enforcement

30.38 Fisheries and Oceans has reasoned that well-sited farms at approved production levels will not produce deleterious substances or HADD. The Department's role is to examine proposals for the siting of salmon farms and to determine whether they are likely to result in HADD, or in the deposit of a deleterious substance in water frequented by fish.

The Department has initiated studies to provide a scientific basis for the siting criteria.

30.39 Fisheries and Oceans scientists drafted siting criteria in 1985 and refined them in 1986. This was subsequent to determining that farms located at shallow, poorly flushed sites were negatively affecting the organisms living on the ocean floor under net pens, as well as causing production problems for operators. To date, these siting criteria have undergone some minor changes, but remain in draft form and have never been formally adopted by the Department. Fisheries and Oceans is now planning to follow the siting criteria that have been developed by the Province (based on the B.C. Salmon Aquaculture Review recommendations) and vetted through the B.C. Fish Farm Review Committee (in which the Department plays an advisory role). These are similar to the Department's criteria.

Lack of a scientific basis for siting criteria

30.40 We expected that the Department would have done more work to provide a scientific basis for its siting criteria and/or to modify its siting criteria using the precautionary approach. Our expectation was based on the Department's concerns about the potential effects of poorly sited salmon farms and the potential for future expansion of salmon farming on the West Coast.

30.41 A 1998 workshop of Fisheries and Oceans habitat scientists concluded that because siting criteria designed to protect both vulnerable wild fish stocks and sensitive habitats are not scientifically based, they leave the Department vulnerable if challenged legally. The Department's Pacific Scientific Advice Review Committee, in its review of the workshop findings, confirmed the need for a scientific basis for the siting criteria. The B.C. Salmon Aquaculture Review also recommended that scientific studies be conducted in specific areas to provide information for developing more credible criteria.

30.42 The Department has recognized the need for such research and has initiated studies to provide a scientific basis for the criteria. However, these studies do not consider any potential effects of salmon farming on wild salmon in the vicinity of net pens.

30.43 The Province is now making decisions on the relocation of about 40 poorly located operations to new areas. It has identified 11 sites in the first round of relocations and is calling on the Department to comment on both the siting criteria and the individual re-siting applications. However, at this time, the Department is unprepared for the demands of the Province's current relocation process and must still base its input to the process on the existing criteria and on scientific judgment.

30.44 The Department has recognized the need for siting criteria to be flexible, as site characteristics are unique and must be considered on a case-by-case basis. Therefore, it is anticipating that new criteria will still require scientific judgment in the assessment of individual sites.

Assessment of Cumulative Effects

Recent evidence and risks to be considered in environmental assessments

30.45 The status of wild salmon has become a concern. Ocean productivity has been poor for certain stocks; some coho stocks are in serious trouble and closures of both coho and sockeye fisheries have occurred; and salmon habitat continues to be lost. In addition, the proposed species at risk legislation before the House of Commons at the time of the audit could result in the listing of endangered or threatened salmon stocks. This would require the Department to take action to impose protective measures and develop recovery plans for stocks at risk. While the Department has done some work in this area, the number of salmon stocks that may be listed has yet to be determined.

30.46 Although the number of salmon farms has been capped at 121 since 1995, overall production has increased. We are concerned that, given this situation, the potential for escapes may increase over time. Both the Department and the Province recognize the need to control Atlantic salmon escapes in the interest of environmental sustainability. Implicit in this recognition is a concern about the risk associated with salmon escapes, especially if the number of farms is increased and some are located near streams containing stocks at risk. We note that in October 2000 the Province announced the introduction of new regulations to prevent salmon escapes. While the possibility of escaped Atlantic salmon actually spawning was accounted for in the B.C. Salmon Aquaculture Review, recent evidence on interactions between Atlantic salmon and wild stocks (as noted in paragraphs 30.51-55) still needs to be taken into account in future environmental assessments.

Review of environmental effects is needed before lifting moratorium

30.47 Proposals for new salmon farms could require assessment under the *Canadian Environmental Assessment Act* (*CEAA*). An assessment would be triggered by the Department's consideration of an authorization for the harmful alteration, disruption or destruction of fish habitat by a salmon farm, or to issue an approval under the *Navigable Waters Protection Act*. Furthermore, the *CEAA* requires that any cumulative environmental effects that are likely to result from projects or activities be considered during environmental assessments. In our opinion, the potential cumulative environmental effects of multiple salmon farm proposals warrant public review before a decision is made to lift the moratorium.

30.48 The Department is currently unable to assess the cumulative environmental effects of salmon farm operations, as required by the *CEAA*. However, it recognizes that it needs to determine how to assess the effects of multiple salmon farms on wild salmon stocks, and how salmon farming operations interact with other human activities in the coastal zone. It has recently started work to develop a model to assess the cumulative effects of waste discharge from salmon farming operations on the coastal zone environment. However, the Department is doing little on the effects of escaping Atlantic salmon, except for the Atlantic Salmon Watch Program, which provides some information on interactions between Atlantic and wild Pacific salmon (see paragraphs 30.65-71).

Both the Department and the Province recognize the need to control Atlantic salmon escapes.

The potential cumulative environmental effects from multiple salmon farm proposals warrant public review before a decision is made to lift the moratorium.

Shortfalls in Research and Monitoring to Assess Effects

Research needs not fully identified nor priorities established

30.49 The 1997 B.C. Salmon Aquaculture Review identified a wide

Fisheries and Oceans is not giving adequate attention to prioritizing research requirements.

range of research needs associated with the salmon farming industry and its effects on the environment in general and on wild salmon in particular. Others with interests in this area have since contributed information, including scientists working on all aspects of salmon biology and ecology as well as environmental and ecosystem issues. The Department is not giving adequate attention to prioritizing research requirements to guide its science program or to fostering co-operative research in this area. However, it has scheduled a workshop to be held in October 2000 to identify research priorities for reducing critical knowledge gaps. It has also carried out some scientific projects in support of the recent court case (see paragraph 30.36).

Recent evidence on interactions between Atlantic and Pacific salmon requires attention

30.50 There is recent evidence on the presence of Atlantic salmon in B.C. rivers and streams. At the time of the B.C. Salmon Aquaculture Review, Atlantic salmon ready to spawn had been observed in B.C. streams, but no juveniles from spawning Atlantic salmon had been captured. Since then, Atlantic salmon have successfully reproduced in at least two rivers on Vancouver Island, the Tsitika and the Amor de Cosmos. In view of the possible effects on life history processes of wild Pacific stocks, this information needs to be taken into account in assessing potential effects of an expanded industry. An increase in the number of salmon farms could result in an increase in the overall number of escaping Atlantic salmon. The larger the number of Atlantic salmon present in B.C. waters, the greater the chance of their disrupting the life history processes (migration, reproduction, competition and predation) of the wild Pacific salmon.



Example of mature adult Atlantic salmon ready for harvest (see paragraph 30.51).

30.51 There is evidence that farmed Atlantic salmon are present in B.C. streams at all life history stages. However, according to a recent gathering of experts convened by Simon Fraser University in March 2000, more information is needed on the effects of interaction between Atlantic and wild Pacific salmon (see Exhibit 30.5). The need for such information, which was also identified in the B.C. Salmon Aquaculture Review, assumes greater importance when consideration is given to increasing the number of farm sites.

30.52 The Department has participated in determining the origin of juvenile Atlantic salmon in the two locations on Vancouver Island. It has also done some research to date on the interactions with wild Pacific salmon, including laboratory hybridization experiments. A graduate student at the University of Victoria in B.C. is currently working on interactions in the field; the work is nearing publication.

30.53 The Department's current assessment of low risk is based on conclusions and information considered in the B.C. Salmon Aquaculture Review (see paragraph 30.22). The review's conclusion is based on a large body of evidence on unsuccessful historical introductions of Atlantic salmon into B.C. coastal streams between 1905 and 1935 and in

Washington State between 1951 and 1991. However, we believe that the recent evidence of the presence of Atlantic salmon at various life stages in B.C. rivers warrants further attention. For example, while past introductions failed, were the attempts made under different circumstances than those occurring today? Also, were Atlantic salmon adapted to local conditions as is now occurring through salmon farming operations?

30.54 Although there are differing opinions on the conditions under which exotic species become established, there is support for the belief that if an exotic species is repeatedly introduced into a suitable habitat, the likelihood of it becoming established increases over time. Although the Department's evaluation may be acceptable given the present level of farm production, we believe that the matter should be revisited under the terms of an expanded industry.

30.55 Further research is needed into effects on the health of wild salmon stocks. An independent group of scientists, referred to in paragraph 30.51, concluded that diseases seen in salmon farms are found in wild stocks, and pathogens are known to move from those stocks to farm salmon. The Department acknowledges that it does not have enough information available to assess the risk of disease transfer from farmed salmon to wild stocks. Its Canadian Stock Assessment Secretariat reports, along with international studies, indicate that there is a serious lack of information in this area.

Exhibit 30.5

Status of Knowledge/ Information Gaps on the Interactions Between Atlantic and Pacific Salmon

(Either recently escaped or wild spawned)

Area of Concern	Has it been examined?	Has it been demonstrated/ documented?	What is the potential for impact on wild Pacific stocks?
Marine			
Competition for food	No	No	Unknown
Interference/disruption of migration	No	No	Relatively low risk
Attraction of wild salmon to net-cage sites (both lighted and not lighted)	No	No	Possible interruption of seaward or adult return migration patterns
Freshwater			
Interference with spawning (behavioural or egg consumption)	No	No	Risk is anticipated but magnitude is unknown
Pacific salmon eggs dug up by spawning Atlantic salmon	No	No	Risk is anticipated but magnitude is unknown
Competition between juveniles for food and space	Yes	Yes	Potentially high; needs to be evaluated
Habitat displacement in freshwater among juveniles	Yes – in laboratory	Yes but appropriate controls lacking	Risk is anticipated but magnitude is unknown

Source: Continuing Studies in Science at Simon Fraser University, Salmon Workshop Proceedings Aquaculture and the Protection of Wild Salmon, July 2000.

This prevents any meaningful assessment of the potential implications on fish health of interaction between wild stocks and farmed salmon. However, the Department enforces Fish Health Protection Regulations, and no exotic diseases have been found in B.C. waters to date.

One line of transgenic Atlantic salmon is being developed by a private company in Eastern Canada.

30.56 There are many sources of antibiotics in the marine environment, including human sewage, and discharges from agricultural operations, federal and provincial salmon and trout enhancement facilities, and salmon farming. Antibiotic resistance could result from any of these sources as well as from natural causes. A 1990 study suggested that bacteria had developed a resistance to antibiotics at fish farms on Jervis Inlet (along the Sunshine Coast) and at Tofino (west coast of Vancouver Island). The Department recognizes that the use of antibiotics in salmon farming is a concern. It states that antibiotic resistance could become a priority research area if antibiotics are to be used more heavily; but a 2000 departmental review paper stated that there is no evidence of a current problem in B.C. waters.



"Transgenic" coho genetically modified for growth enhancement (top) compared with normal coho juveniles (bottom), both at 14 months of age (see paragraph 30.57).

Source: Fisheries and Oceans

Research on genetically modified and sterile salmon

30.57 Genetically modified or "transgenic" salmon are currently not in commercial use anywhere in the world, but their use is being contemplated internationally. Interest in these fish as safe to eat has increased significantly. Although there is currently no interest in B.C. in farming transgenic salmon, the situation could change if global opinion endorses the use of transgenics abroad, giving foreign salmon producers advantages in the market. In fact, at least one line of transgenic Atlantic salmon is being developed by a private company in Eastern Canada. While safety is the primary concern, the use of transgenic salmon also raises questions about their behaviour and their effects on wild salmon stocks and habitat, should they escape into B.C. waters.

30.58 At its West Vancouver Laboratory, the Department is conducting research for risk assessment purposes into coho genetically modified for growth enhancement. There is not enough information yet to reliably predict potential effects on the B.C. environment and wild salmon stocks. However, the Province has announced that it has adopted as policy the Salmon Aquaculture Review recommendation that government should continue to prohibit the

commercial farming of transgenic salmon in marine net cages.

30.59 Induced sterility and use of only female salmon have been proposed as ways to prevent the establishment of wild stocks and thereby reduce the risks posed by genetically modified salmon. The Department is currently studying the effectiveness of sterilization methods and looking at the associated uncertainties. As options for preventing reproduction are more promising, it is important that the Department keep up with research in this area.

30.60 Fisheries and Oceans should identify areas of needed research to understand the potential effects of an expanded salmon industry. It should assign priorities to ensure the most effective use of limited resources within the time period remaining before new farm site proposals are reviewed.

No monitoring of sensitive coastal habitat adjacent to farm sites

30.61 The Department is not monitoring sensitive coastal habitat adjacent to existing and potential salmon farm sites. Its new $75 million funding to implement its Program for Sustainable Aquaculture may provide the resources it needs to become actively involved with the Province in monitoring and evaluating existing and proposed farm sites from this perspective. However, specific information about how the funds will be allocated is not yet available.

30.62 Stream classification systems are only used in the siting of aquaculture operations to consider the presence or absence of nearby salmon-bearing streams. They are not used as a guide to establishing a comprehensive monitoring program. Both the B.C. government and the Department have noted that, in their sensitivity to the siting of salmon farms, small streams containing wild salmon stocks are as important as rivers and contribute to the biodiversity of stocks.

No regular monitoring of wild salmon stocks adjacent to farm sites

30.63 The Department does not regularly monitor the status of wild salmon stocks in the vicinity of existing and proposed farm sites. B.C.'s Salmon Aquaculture Review concluded that native salmon stocks closest to salmon farms are at higher risk than stocks inhabiting areas farther from large farms, although some escaped salmon are known to travel long distances. The areas of greatest salmon farm activity are the northeast and west coasts of Vancouver Island. These areas have some stocks of all salmon species that are at risk, as noted in the Review.

The Department is not monitoring sensitive coastal habitat adjacent to existing and potential farm sites.

30.64 The Department has an active stock assessment program but is only monitoring selected stocks. It is taking action to protect the biodiversity of wild salmon stocks, as reported in the Auditor General's December 1999 Report, Chapter 20, Pacific Salmon: Sustainability of the Fisheries. However, there is only limited information on stocks along the north and central coasts, where some salmon farming sites may be relocated.

Inadequate monitoring for the presence of Atlantic salmon

30.65 The level of monitoring by the Department for the presence of escaped farm salmon is low, and the information available to the Department, the Province, and the public on escaped Atlantic salmon in B.C. is limited (see Exhibits 30.6 and 30.7.) The Atlantic Salmon Watch Program (ASWP) is the only dedicated program on the Pacific coast for the collection of information on escaped Atlantic salmon. It is funded by B.C., with staff and facilities provided by Fisheries and Oceans. While draft data from 1998–99 were available, the most recent publication was the 1997 annual report.

30.66 The ASWP involves sampling only when opportunities arise, and it is likely to underestimate by an unknown factor the number of Atlantic salmon in the wild. The primary sources of

Few streams have been surveyed for the presence of Atlantic salmon.

information on the presence of Atlantic salmon in freshwater systems are fishermen and biologists, who observe only a small percentage of stream areas potentially occupied by Atlantic salmon. The frequency of observation in each region generally reflects the level of effort, which has been greatest along the west coast of Vancouver Island. The completeness of the marine data is a concern. The commercial fishing industry is the primary source of information on numbers of Atlantic salmon in the marine environment. However, captures of Atlantic salmon are directly related to catch effort, and the commercial fishery has been reduced since 1996. As a result, recent data are highly variable and no trend over time is apparent.

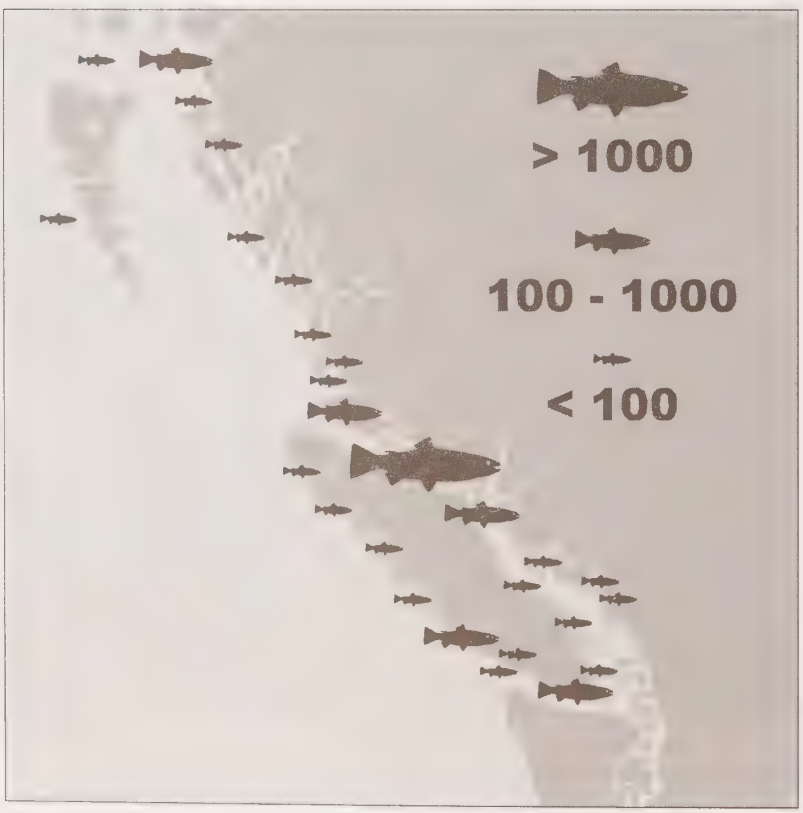
30.67 Relatively few streams have been surveyed for the presence of Atlantic salmon. Since 1995, the Department has conducted regular surveys to assess chinook salmon stocks in streams on the west coast of Vancouver Island. Sightings of Atlantic salmon are recorded during these surveys. The B.C. government has also conducted stream surveys that have recorded Atlantic salmon sightings. However, only a small number of streams are surveyed each year, and the work is confined primarily to Vancouver Island.

30.68 The Department informs us that there are currently four active survey programs for Atlantic salmon that will involve 30 to 35 river systems on Vancouver Island and the mainland. Other streams are monitored as part of the Department's normal stock assessment process. Due to the difficulty and expense of accessing remote areas, no streams have been surveyed on the mainland across from the Broughton Archipelago, where the majority of farms operate. Furthermore, monitoring is focussed on sites where Atlantic salmon have been observed, rather than extending over a wider geographical area.

30.69 The number of escaped Atlantic salmon in the northeast Pacific coastal waters may be increasing, although no clear trend has been established. Farm salmon routinely escape from their enclosures, either in small numbers or in large events as a result of net failures or tears. From 1991 to 1999, more than 345,000 Atlantic salmon, both juveniles and adults, reportedly escaped from B.C. salmon farms. While this number may appear relatively insignificant given the high level of production, even at this level of escapes Atlantic salmon are entering and reproducing in B.C. streams. In fact, some very large escapes have occurred. For example, in the United States on 19 July 1997, 370,000 Atlantic salmon escaped from a farm site in Rich Passage,

Exhibit 30.6

Catch Data for Adult Atlantic Salmon in the British Columbia Marine Environment, 1988–1999



Source: Fisheries and Oceans, Atlantic Salmon Watch Program, 2000.

Washington. Atlantic salmon have been caught off the coast of Washington, B.C. and Alaska, and their presence has been documented in 79 rivers and streams in B.C.

30.70 The Atlantic Salmon Watch Program has prepared a draft proposal for an enhanced monitoring framework to actively monitor the presence and abundance of Atlantic salmon. However, this framework will be triggered only if Atlantic salmon are reported through the existing program, in which reporting is passive. The enhanced framework would improve the quality of existing data, but it would not increase the number of streams surveyed. The Department has committed $30,000 for the program for this year. In addition, the program's coverage is being expanded through efforts at increasing public awareness of Atlantic salmon in B.C. rivers and streams.

30.71 The information gathered from the program includes data on the presence, distribution and number of Atlantic salmon, especially in streams containing weak or "at risk" stocks of wild salmon. This information is part of the evidence that the Department and the Province need to assess the cumulative effects of an expanded industry in the context of the present technology. Later, the information will be vital to assess the effectiveness of new regulations and permit requirements.

30.72 Given that escapes of Atlantic salmon from open net rearing facilities are expected to continue into the foreseeable future, Fisheries and Oceans should expand and improve the Atlantic Salmon Watch Program to provide the information necessary to assess the effectiveness of its regulatory and management activities.

Resolution of Federal-Provincial Issues

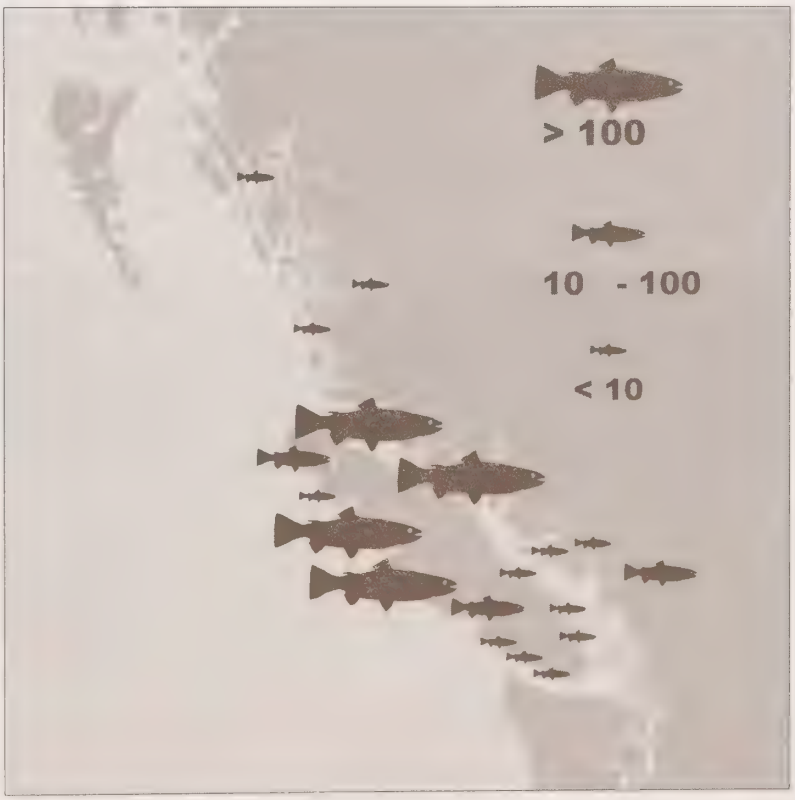
Action taken to co-ordinate efforts

30.73 Fisheries and Oceans and B.C. have shared responsibilities for managing salmon farming effects. In order to clarify their respective roles and responsibilities in developing the aquaculture industry, the federal and provincial governments entered into a Memorandum of Understanding in 1988. Under the agreement, the Department does not delegate responsibility to B.C. for managing the environmental effects of salmon farming. Both parties still look to

The presence of Atlantic salmon has been documented in 79 rivers and streams in B.C.

Exhibit 30.7

Sightings and Catch Data for Adult Atlantic Salmon in the British Columbia Freshwater Environment, 1990–1999



Source: Fisheries and Oceans, Atlantic Salmon Watch Program, 2000.

this agreement as a guide for division of responsibilities. Much of the agreement focusses on the need for co-ordination, which would be done through a joint management committee. While there is currently no management committee in place for the MOU, Fisheries and Oceans has been invited to participate in the Province's review process.

30.74 The Federal Aquaculture Development Strategy (FADS) called for the establishment of aquaculture implementation committees in each province. In B.C., this would basically have mirrored the management committee under the MOU. The establishment of such a committee and the implementation of FADS were delayed throughout the moratorium period. However, B.C. continued to examine salmon farming issues with the Department's participation.

30.75 Since announcing its Salmon Aquaculture Policy in October 1999, B.C. has taken a lead role in co-ordinating the development of standards for salmon farming. The Department is a member of the Province's Salmon Aquaculture Implementation Advisory Committee (a stakeholder committee), its Technical Advisory Group for co-ordination of research (which includes industry), its Fish Farm Review Committee (for relocations), and its Salmon Aquaculture Implementation Project Committee. However, the Department plays a mainly advisory role on these committees.

30.76 B.C. is working to develop performance-based standards under its *Waste Management Act*. In co-operation with industry and with some involvement by Fisheries and Oceans, the Province is directing an Interim Monitoring Program to provide information for finalizing the standards. These call for use of chemical and physical indicators in the marine environment (outputs — for example, feces and uneaten food) to determine the health of communities of organisms adjacent to salmon-rearing pens, and for the regulation of effects rather than inputs (for example, fish food). There is potential conflict between B.C.'s planned performance-based standards, which will provide thresholds for demonstrated effects, and section 35(1) of the federal *Fisheries Act,* which prohibits the harmful alteration, disruption or destruction (HADD) of habitat unless authorization is given.

30.77 The Department recognizes that this potential conflict needs to be addressed and is currently reviewing the Province's draft of the performance-based standards. Through the Technical Advisory Group, the Department is providing input to the Interim Monitoring Program by commenting on study design, and is co-ordinating its own research.



Example of a mature adult farmed Atlantic salmon (see paragraph 30.69).

More work is needed to resolve issues

30.78 As discussed earlier in this chapter, the Department does not have the information necessary to develop administrative criteria for identifying thresholds for HADD, resulting from salmon farming, and is currently not enforcing sections 35 and 36 of the *Fisheries Act* with respect to salmon farming operations. It is therefore planning to use the results of the Interim Monitoring Program along with the results

of its research program and input of other agencies to determine how to apply the *Fisheries Act* to salmon farming.

30.79 The Department is not currently keeping pace with the provincial process of determining the effects of salmon farming and developing standards, and is having trouble co-ordinating its own involvement. It is important that the Department and the Province reach an agreement on the work to be done by each partner before consideration is given to lifting the moratorium.

30.80 Fisheries and Oceans should take immediate action to determine how the concept of "harmful alteration, disruption or destruction of habitat" will be applied to salmon farming and how the "deposit of a deleterious substance" will be addressed, so it can provide the Province of British Columbia with comprehensive comments on potential conflicts between federal legislation and provincial regulations.

Conclusion

30.81 Fisheries and Oceans has legislative responsibility to protect wild salmon from the effects of salmon farming, and it is managing on the basis that salmon farming poses an overall low risk to wild salmon and habitat. The Department is still evaluating information on the effects of salmon farming. It is not certain when it will have enough information to assess and to mitigate against cumulative environmental effects.

30.82 The Department lacks the scientific information it needs to ensure that its compliance monitoring and enforcement activities protect wild salmon and salmon habitat, in keeping with its legislative responsibilities. It is therefore unable to enforce the provisions of the *Fisheries Act* with respect to salmon farming. Furthermore, it is not ensuring that, where it has delegated responsibilities, the requirements of the *Fisheries Act* are being met.

30.83 The Department has not yet made adequate progress on identifying areas and priorities for research on the effects of Atlantic salmon interaction with wild salmon stocks. This work needs to be done to prepare for an environmental assessment of new proposals if the industry is to be expanded or to relocate existing farms.

The Department is not currently keeping pace with the provincial process.

30.84 The Department is now reviewing the federal regulatory framework that applies for aquaculture, with a view to creating more specific controls for aquaculture operations. However, it will need to apply the precautionary approach by:

- applying new knowledge from ongoing research in the development of new regulations;
- monitoring and enforcing compliance with new regulations over the long term; and
- assessing the effectiveness of these regulations in protecting wild salmon stocks.

30.85 Because the Department has not determined how to apply and enforce its legislation, it cannot play a leadership role in ensuring that the *Fisheries Act* is addressed in the development of provincial standards. The Department may, therefore, find itself in the position of enforcing federal legislation that conflicts with provincial regulations.

30.86 In summary, we have concluded that Fisheries and Oceans is not fully meeting its legislative obligations under the *Fisheries Act* while participating in the regulation of salmon farming in B.C.

Fisheries and Oceans' overall response: *Fisheries and Oceans is committed to sustainable development of the aquaculture industry, and the Department*

is meeting its challenges through a multi-pronged action plan.

In August 2000, the Department announced its Program for Sustainable Aquaculture (PSA) — a $75 million investment over five years for sustainable aquaculture in Canada. This program invests in environmental and biological science ($13.75 million), strategic research and development ($20 million), measures to ensure the quality and safety of fish and fish products ($20 million), and an improved regulatory and management framework for the aquaculture sector ($21.5 million). These program enhancements will increase resources in the Pacific Region to effectively conduct fish habitat and environmental assessments of proposed aquaculture developments as well as monitor compliance with, and enforce, its regulatory responsibilities. Indeed, the Department has recently advised all B.C. salmon farmers that monitoring of their sites will increase to better ensure compliance with the Fisheries Act.

The PSA will also enable the Department to build on the existing and growing knowledge base of the potential ecosystem impacts of an expanding salmon industry. Work is already under way by Fisheries and Oceans officials in both the region and in headquarters to prioritize and co-ordinate research initiatives with others, including the federal government's Aquanet Centre of Excellence, the Province of British Columbia's recently announced aquaculture research trust fund, and with ongoing initiatives of the other provinces through the Canadian Council of Fisheries and Aquaculture Ministers Task Group on Aquaculture.

As part of a recent review of the legislative, regulatory and policy framework for aquaculture, prepared by the Office of the Commissioner for Aquaculture Development, the Department is also placing a priority on further addressing a number of issues related to environmental and habitat protection. These actions include refining the application of section 35 of the Fisheries Act *(harmful alteration, disruption and destruction of habitat) as it applies to aquaculture operations, as well as consideration, in collaboration with Environment Canada, of the development of regulations under section 36 of the* Fisheries Act *to control the deposit of any deleterious substances from aquaculture operations. In addition, under the auspices of the Canadian Council of Fisheries and Aquaculture Ministers, the Department is working closely with provincial departments responsible for aquaculture to harmonize federal and provincial roles and to reduce unnecessary duplication of effort, thereby freeing resources to focus on priorities and gaps. Finally, the Department is working with provinces and industry to establish a national aquatic animal health program aimed at reducing the incidence of disease and the severity of the impacts. Important environmental outcomes of this program include improved aquatic animal health in wild and farmed populations and further reductions in antibiotic and pesticide use.*

In response to the concern raised regarding the escapement of farmed fish, escapes from B.C. fish farms now represent only 0.3 percent of the total harvest. The Department is committed to working with the industry and its provincial counterparts to further reduce the risk of future escapes. In B.C. the provincial Ministry of Agriculture, Food and Fisheries has recently announced more stringent measures to help prevent fish farm escapes. The revised regulations require enhanced escape prevention and response plans, expanded reporting requirements, and record keeping. Fisheries and Oceans is committed to such preventive measures and will continue to work to support these and other efforts by the provincial government.

As to the specific recommendation to expand and improve the Atlantic Salmon

Watch program, the Department has provided additional funding to the Program in 2000-2001 and the number of streams surveyed under its auspices has been increased.

Given that Atlantic salmon numbers are small and there are thousands of rivers and streams in British Columbia, the chances of finding salmon are low. The extensive funding required for comprehensive monitoring would divert investments otherwise available to restore habitat and protect wild stocks — activities with proven benefits.

Fisheries and Oceans' aquaculture action plan demonstrates its serious commitment to developing the aquaculture sector in a sustainable manner that increases awareness of, and addresses, the potential environmental impacts associated with salmon farming.

About the Audit

Objective

The audit objective was to determine whether Fisheries and Oceans, as the department responsible for the conservation and protection of wild salmon stocks, is meeting its obligations under the *Fisheries Act,* the *Oceans Act* and other legislation while participating in the regulation of the salmon farming industry in B.C.

Criteria

We expected that the Department would have:

- ensured that its roles and responsibilities in regulating the salmon farming industry in B.C. were consistent with its mandate for the conservation and protection of wild Pacific salmon as defined in key legislation such as the *Fisheries Act* and the *Oceans Act;* and that where agreements are in place for other agencies to administer provisions of the *Fisheries Act*, accountability requirements for these provisions were clearly articulated;
- conducted research and acquired scientific information on the impact of salmon farming operations on the conservation and protection of wild Pacific salmon stocks and their habitat, with special reference to their sustainability and the protection of their genetic diversity, and made such information available to decision makers, stakeholders and the general public;
- used the results of targeted research and related scientific information to support the development of internal policies and strategies relative to the Department's participation in the regulation of salmon farming activities, and ensured that such policies and strategies were consistent with its responsibilities for the conservation and protection of wild Pacific salmon;
- developed or participated in the development of regulations/standards pertaining to salmon farming that are consistent with legislation and departmental policies, and made the necessary internal and external co-ordination arrangements to accommodate this process; and
- ensured that such regulations/standards were enforced directly, or monitored regularly through accountability provisions in administration agreements with other agencies.

Approach

In order to focus on the Department's need for compatibility of salmon farming management with its core responsibilities for wild salmon management, we asked ourselves three questions:

- Has Fisheries and Oceans identified and evaluated the effects of salmon farming on wild stock management by following a risk management plan?
- Has Fisheries and Oceans formulated an action plan to deal with salmon farming, together with a strategy for its integration into the wild salmon management plan(s) to ensure consistency with the established principles of conservation and the precautionary approach?

- If such an action plan exists, is Fisheries and Oceans implementing its elements?

Our audit included meetings and conversations with departmental staff in Ottawa, in the regional office in Vancouver, and in district offices and research facilities. We reviewed Fisheries and Oceans files and documentation, and made formal requests through correspondence or e-mail for specific information from departmental staff in headquarters and the regional office. A large amount of material was obtained through the review of external and internal reports and from government and other Web sites and by participating in scientific conferences on Pacific salmon. We interviewed some senior officials in the provincial government and obtained from them information relating to federal-provincial activities.

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Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
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Chapter 31
Fisheries and Oceans – Fleet Management

December 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 31

Fisheries and Oceans – Fleet Management



December 2000

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Chapter 31

Fisheries and Oceans

Fleet Management

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	31-5
Introduction	31-7
The Department's mandate for the fleet	31-7
The 1990s — a period of change in the fleet	31-8
What the fleet includes	31-8
Focus of the audit	31-9
Observations and Recommendations	31-11
Fleet Mandate, Accountability and Stewardship Reporting	31-11
A clear mandate to operate a fleet	31-11
Organization and accountability	31-12
Key elements in implementing the "client service provider" model	31-12
Program performance expectations are short-term, unclear or unrealistic	31-14
Long-term perspective needed for planning and funding	31-16
Arrangements not documented	31-17
Current method of allocating costs discourages vessel usage	31-17
Inadequate information to monitor and account for fleet performance	31-18
Need to improve stewardship reporting	31-19
The Department's strategic plan — the roadmap forward?	31-19
Vessel Life Cycle Management	31-20
Life cycle management — a government requirement since 1995	31-20
Slow progress in implementing life cycle management	31-20
Assessing and planning fleet requirements	31-21
Accountability for cost-effective fleet operations	31-22
Operating without timely, reliable and integrated information	31-23
Maintenance — the need for a national, fact-based approach	31-24
Costliness of vessels in lay-up status	31-24
Managing the Fleet's Human Resources	31-25
The fleet's single largest operating expense	31-25
Need for a human resource plan	31-26
The impact of human resource issues on operations	31-26
Ensuring that properly skilled personnel are available	31-28
Shore-based support is too large given the current size of the fleet	31-29
Conclusion	31-30
About the Audit	31-31
Exhibits	
31.1 The Fleet as a Client Service Provider	31-7
31.2 Changes in the Fleet Inventory of Vessels, 1990–2000	31-9
31.3 Age Profile of the Fleet of 41 Large Vessels Funded for Future Operations	31-10
31.4 Direct Cost of Providing the Fleet Service	31-10
31.5 Reporting and Accountability Relationships for Fleet Management	31-13
31.6 Mid-Life Refit of the *CCGS Cygnus*	31-16
31.7 Example of a Cost-Sharing Arrangement in the Newfoundland Region	31-18
31.8 Shore-Based Positions that Directly Support the Fleet	31-25
31.9 Ships' Personnel by Employment Status	31-29

Fisheries and Oceans

Fleet Management

Main Points

31.1 In our opinion, Fisheries and Oceans is not managing its fleet in a cost-effective manner. There is a wide variation in practices and procedures employed by the five regions where the fleet operations are controlled. With each region having its own operating practices, procedures and support, the Department is missing opportunities for greater flexibility in sharing resources and for better productivity in providing the fleet service.

31.2 We observed the following problems in the key management practices that are important to a cost-effective fleet activity:

- The Department has not established clear, concrete, realistic and agreed-upon performance expectations for the fleet.
- The funding horizon has been only one year, even though the fleet is a capital-intensive activity with high fixed costs.
- There is a lack of service accords clearly establishing the performance and funding arrangements between the Department's programs and the fleet.
- Internal budgetary processes do not support accountability for the fleet activity.
- Information systems are not integrated and do not provide managers with reliable, timely information on performance and cost.
- The method of allocating costs to programs discourages vessel use.
- The fleet does not employ a life cycle approach to managing its vessels.
- The fleet is not adequately managing its single largest operating expenditure, its human resources.
- Shore-based support is too large, given the current size of the fleet.
- There are weaknesses in stewardship reporting to Parliament.

31.3 As the Department addresses these issues in an order of priority (they cannot all be addressed at once), it also needs to consider a longer-term strategy to renew its aging fleet. Such a strategy would need to take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the services needed.

Background and other observations

31.4 At 31 March 2000, the fleet consisted of 144 vessels (122 were operational for some period during 1999–2000), including vessels as small as an 8-metre multi-tasked utility vessel to a 111-metre heavy gulf icebreaker. The fleet plays a key role in providing services such as aids to navigation, icebreaking, the marine component of search and rescue, and marine pollution prevention and response. It also supports the Department in the conduct of fisheries science and enforcement, hydrography, oceanography and other marine sciences.

31.5 In 1999–2000, Fisheries and Oceans spent approximately $229 million for operations, maintenance and capital replacement of the fleet. In addition, an estimated $52 million was spent on shore-based support.

31.6 The fleet's human resources are its single largest operating expense. At 1 April 2000, there were 756 officers and 1,308 crew assigned to vessels, although the number of people varies during the year depending on seasonal requirements. In addition, we estimate conservatively that there are about 447 full-time-equivalent shore-based positions that provide direct support to the fleet and about 55 positions associated with the Canadian Coast Guard College that provide training support directly to the fleet.

31.7 Our audit focussed on the 47 large vessels that operated for some period during 1999–2000, vessels in lay-up status, and the sea- and shore-based people directly involved in managing and operating the fleet. The large vessels annually incur between 70 and 80 percent of the operating costs of the fleet.

31.8 Since 1994, the fleet has had to deal with significant fiscal restraint, the merger of the former Transport Canada Coast Guard fleet with the science and fisheries enforcement fleets of Fisheries and Oceans (1995), and further fiscal restraint associated with the merger (1996 to the present). We had expected to find some management issues, given the amount of change the fleet has undergone; however, we are concerned about the number and seriousness of the issues we found. We believe that the resolution of these issues requires management's prompt action.

31.9 While the issues raised in this chapter are considerable and represent a challenge to management, the Department deserves credit for several initiatives that are important to the delivery of the fleet activity. Most notable is the ongoing implementation of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code). Also, during 1999–2000, program and fleet managers identified the existing vessels that could be afforded, within available funding, while providing the best possible service. This exercise did not address the problems we identified above; however, it could bring some stability to the environment in which the fleet operates.

The Department's overall response to this chapter follows paragraph 31.139. Fisheries and Oceans accepts our findings and indicates that a study is under way to develop strategic options for fleet management. Following completion of the study, the Department intends to develop an action plan addressing seven specific areas that encompass the issues we have identified.

Introduction

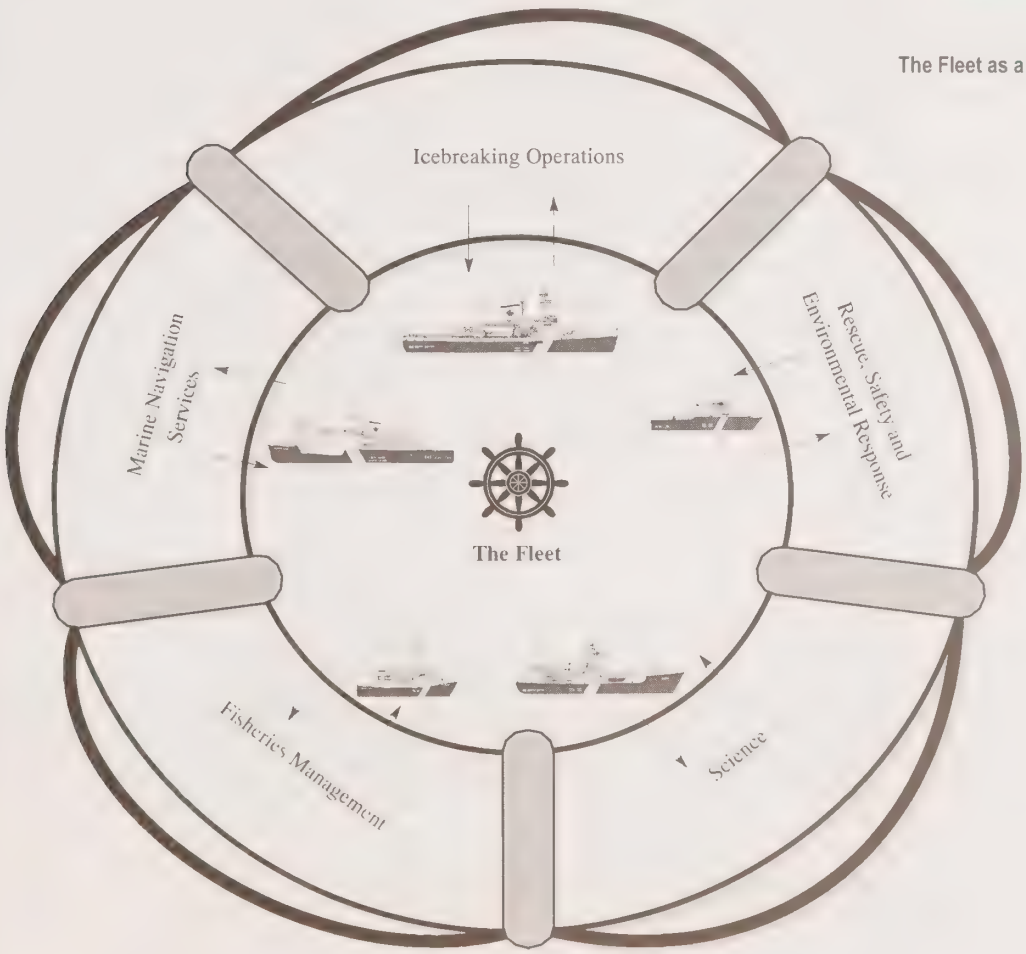
The Department's mandate for the fleet

31.10 The *Oceans Act* makes the Minister of Fisheries and Oceans responsible for providing a coast guard service, including aids to navigation, icebreaking, the marine component of search and rescue, and marine pollution prevention and response. In addition, the *Oceans Act* authorizes the Minister to maintain and operate ships for the purpose of conducting fisheries science, hydrography, oceanography and other marine sciences. The *Fisheries Act* and the *Coastal Fisheries Protection Act* provide for the Department to have a presence on the oceans for fisheries management purposes. To help provide these services, the Department operates a fleet of vessels.

31.11 The fleet is a "client service provider" for the Department's programs, which in turn provide service to other internal and external users (see Exhibit 31.1). The costs of vessel operations and crewing are charged to these programs or business lines (the internal users pay for direct operational costs). The costs of fleet shore-based staff,

Exhibit 31.1

The Fleet as a Client Service Provider



capital acquisitions and maintenance of vessels are reported as a separate business line — fleet management.

31.12 The fleet also provides support to other government departments and agencies, and to other governments and international organizations. However, it is not regularly funded for such activities. In addition, the fleet helps to assert Canada's sovereignty in the Arctic through its icebreaking.

The 1990s was a period of significant change for the fleet.

The 1990s — a period of change in the fleet

31.13 Since our last audit of the Canadian Coast Guard fleet in 1989, there have been many changes. The fleet has been the subject of studies and reviews, the Coast Guard has merged with Fisheries and Oceans, and funding has been greatly reduced.

31.14 In 1990, the government received a report on an independent review of all government fleet activity, including the two largest civilian fleets, the Coast Guard — then a part of Transport Canada — and the Fisheries and Oceans fleet. Some key recommendations of this review were that the government should:

- continue to maintain separate fleets;
- establish an interdepartmental committee for program co-ordination and review to improve vessel utilization; and
- charge service recipients according to the incremental cost of use.

31.15 In 1994, funding of both the Coast Guard and Fisheries and Oceans was significantly reduced through Program Review. In 1995, the Coast Guard was merged with Fisheries and Oceans, making the latter responsible for managing the Government of Canada's largest civilian fleet.

31.16 The post-merger period created significant challenges in bringing together two fleets that operated differently and had different corporate cultures. Further reductions in funding were approved based on anticipated savings from the merger.

31.17 Most recently, on 3 April 2000, the Coast Guard headquarters, including marine programs and fleet management, was reorganized. The objectives of the reorganization were to improve service to the regions, eliminate overlap between the Coast Guard and the rest of the Department's headquarters, and finalize the organizational structure to facilitate staffing on an indeterminate basis.

What the fleet includes

31.18 There is not just a single national Fisheries and Oceans fleet; fleet operations are very decentralized. While fleet headquarters issues guidance and directions on standards and policy, each region operates according to its own practices and management preferences. Each region deploys, maintains and operates the vessels assigned to it.

31.19 At 31 March 2000, the fleet consisted of 144 vessels (122 of which operated for some period in 1999–2000). Vessels range from an 8-metre multi-tasked utility vessel to a 111-metre heavy gulf icebreaker. This current audit was directed at only the 47 large vessels that operated for some period during 1999–2000 and those vessels in lay-up (non-operational) status. The large vessels annually incur between 70 and 80 percent of the fleet's operating costs. Most of the smaller vessels are primarily single-purpose search and rescue lifeboats, and they operate in quite a different way from the rest of the fleet. In addition, most of the Department's programs operate boats measuring under eight metres. These boats are not considered part of the fleet and were not included in the scope of this audit.

31.20 In 1990, the Coast Guard and Fisheries and Oceans fleets had a combined total of 198 vessels. The Department has just completed a "Base

Fleet" exercise, which recommended that only 108 of the remaining 144 vessels be funded to operate annually. Forty-one of the 108 vessels are considered large. Those not funded will be held in lay-up status or decommissioned and eventually sold. Exhibit 31.2 summarizes the changes in the inventory of vessels since 1990.

31.21 The average age of the 41 large vessels funded for future operations is 22 years. Given that the Department considers 30 years to be the effective useful life of its vessels, the existing asset base is growing old; many classes of vessels are nearing the end of their useful lives. With its vessels aging at a time when capital funds are not readily available, the Department is confronted with a serious challenge — its ability to renew its fleet and provide the services its programs require. In 1999, the Department estimated that the replacement cost of all of the large vessels was $2.2 billion. Furthermore, the Department has stated that the increased cost of operating and maintaining old vessels reduces the amount of funding that it could use to provide additional service to departmental programs. Exhibit 31.3 shows the age of the 41 large vessels in the fleet that are to be funded for future operations. Certain classes of vessels are aging together; all 5 of the ice-strengthened navigational aids tenders, 3 of 11 icebreaking navigational aids tenders and 1 of the 5 icebreakers are over 30 years old.

31.22 For the year ended 31 March 2000, the Department estimated that the direct cost of providing the fleet service was $281 million (see Exhibit 31.4).

31.23 In support of the fleet, the Department also incurs indirect costs for finance, personnel and other administrative and technical support.

Focus of the audit

31.24 Our audit focussed on the management of the 47 large vessels that operated for some period during 1999–2000, vessels in lay-up status, and the sea- and shore-based staff directly involved in managing and operating the fleet. This included an examination of the clarity of the mandate for the fleet, the Department's method of determining the nature and level of service expected, and accountability relationships involved in delivering the service. We excluded the supply system and the management of the shore-based infrastructure such as wharves.

31.25 Our objective was to assess the extent to which the fleet has provided cost-effective support service to the

Exhibit 31.2

Changes in the Fleet Inventory of Vessels, 1990–2000

	1990	1994	1996	2000	
Pre-Merger Department	**Inventory**	**Inventory**	**Post-Merger Total Inventory**	**Base Fleet Funded Vessels**	**Base Fleet Total Inventory**
Canadian Coast Guard(1)	93	91	88	74	90
Fisheries and Oceans(2)	105	79	81	34	54
Total	**198**	**170**	**169**	**108**	**144**

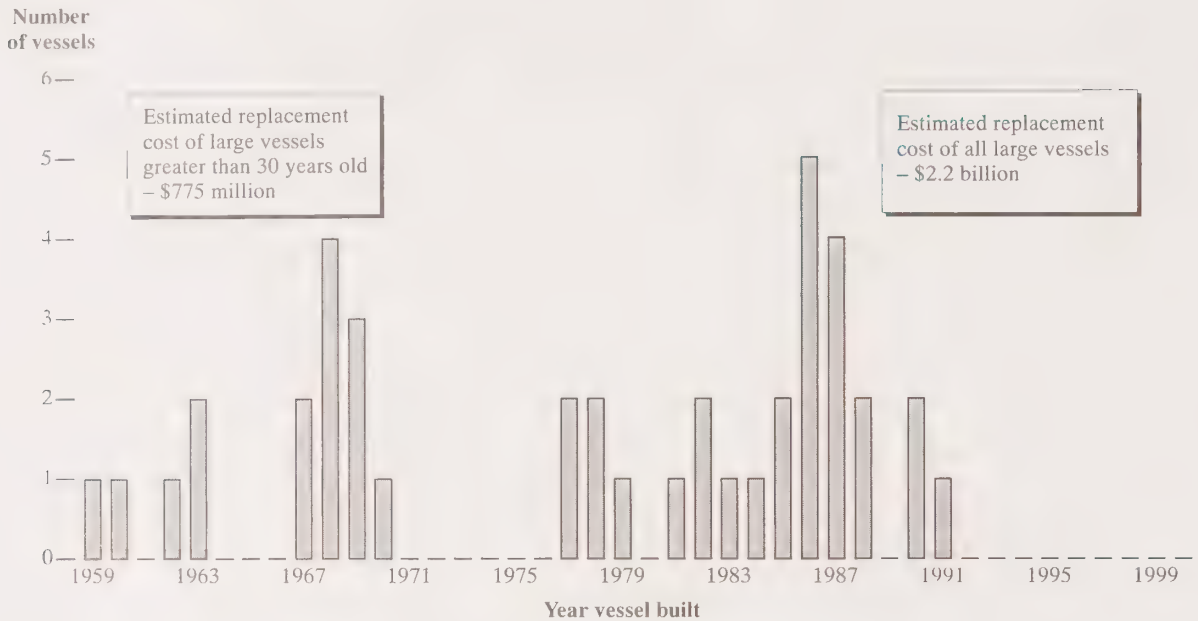
(1) Post-merger split shows vessels primarily tasked to support the marine programs.

(2) Post-merger split shows vessels primarily tasked to support science and fisheries enforcement.

Source: Fisheries and Oceans

Exhibit 31.3

Age Profile of the Fleet of 41 Large Vessels Funded for Future Operations



Source: Fisheries and Oceans

Exhibit 31.4

Direct Cost of Providing the Fleet Service

Year Ended 31 March 2000 ($ millions)

Vessel costs		
Salaries	$ 108	
Contributions to employee benefit programs*	22	
Operating	35	
Vessel costs allocated to the programs	165	
Capital acquisitions	39	
Maintenance and refit	25	
		229
Shore-based support costs		
Salaries	28	
Contributions to employee benefit programs*	6	
Operating	18	
		52
Direct cost of the service		**$ 281**

Source: Fisheries and Oceans

* Estimated at 20 percent of salaries

Department's programs and those of other government departments. We did not audit the delivery of the Department's programs, including its marine programs.

Observations and Recommendations

Fleet Mandate, Accountability and Stewardship Reporting

A clear mandate to operate a fleet

31.26 The Department's mandate to operate and maintain a fleet of vessels to support the delivery of its programs is laid out in the *Oceans Act*. In addition, the *Fisheries Act* and the *Coastal Fisheries Protection Act* provide for the Department to have a presence on the oceans for fisheries management purposes. The fleet supports all the Department's priorities, including managing and protecting fisheries resources, protecting the marine and freshwater environment, understanding oceans and aquatic resources, maintaining maritime safety, and facilitating maritime commerce and ocean development. The *Oceans Act* also requires the Minister of Fisheries and Oceans to ensure that services to achieve the "safe, economical and efficient

Examples of the types of large vessels that operated in 1999–2000 (see paragraph 31.24).

CCGS Des Groseilliers: Medium Gulf and River Icebreaker



CCGS Dumit: Special River Navigational Aids Tender

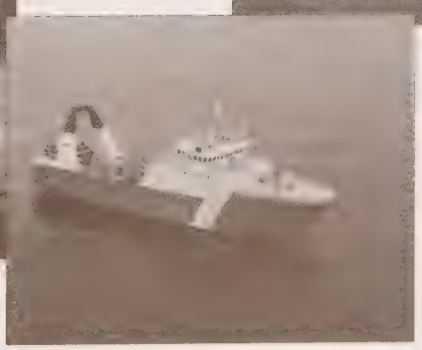


CCGS Martha L. Black: Major Navigational Aids Tender





CCGS Cape Roger: Multi-Task Patrol Vessel



CCGS Teleost: Science Research and Survey Vessel

Source: Fisheries and Oceans

movement of ships in Canadian waters" are provided in a cost-effective manner.

Organization and accountability

Reporting relationships are complex.

31.27 Under the Department's matrix management model, the fleet is not a stand-alone organization within the Department. The fleet's operations in each region report directly to one of five regional directors general. They have a functional reporting relationship to the Commissioner of the Coast Guard on national policy matters and are also expected to consult and collaborate with the Commissioner on resourcing and performance. Both the Commissioner and the regional directors general report directly to the Deputy Minister. Exhibit 31.5 shows this complex reporting relationship.

31.28 The Commissioner is responsible for setting national objectives, policies, standards and procedures while monitoring the performance of the fleet operations in the regions, and also for all capital acquisition decisions and major refits. As the Assistant Deputy Minister, Marine, the Commissioner also has functional responsibilities for the marine programs (marine navigation services, marine communications and traffic services, icebreaking operations and rescue, safety and environmental response). Consequently, the Commissioner has direct authority and responsibility for fleet headquarters but no direct authority over the operations of vessels in the fleet.

31.29 The regional fleet operations are responsible for organizing and managing the delivery of activities in each region according to national and regional program priorities and within national performance parameters. Regional directors general, through the Coast Guard's regional directors, have direct authority and responsibility for vessel operations. They are accountable for organizing and managing the resources assigned to the region in accordance with assigned authorities, performance standards and results agreed to with the respective assistant deputy ministers (including the Commissioner).

31.30 The fleet's clients — the programs — are organized in a similar manner to the fleet (that is, regional directors general are responsible for program delivery while assistant deputy ministers set national priorities and performance expectations). Therefore, for any one program serviced by the fleet, there will be a number of players at headquarters or in the regions, using, providing or supporting services.

Key elements in implementing the "client service provider" model

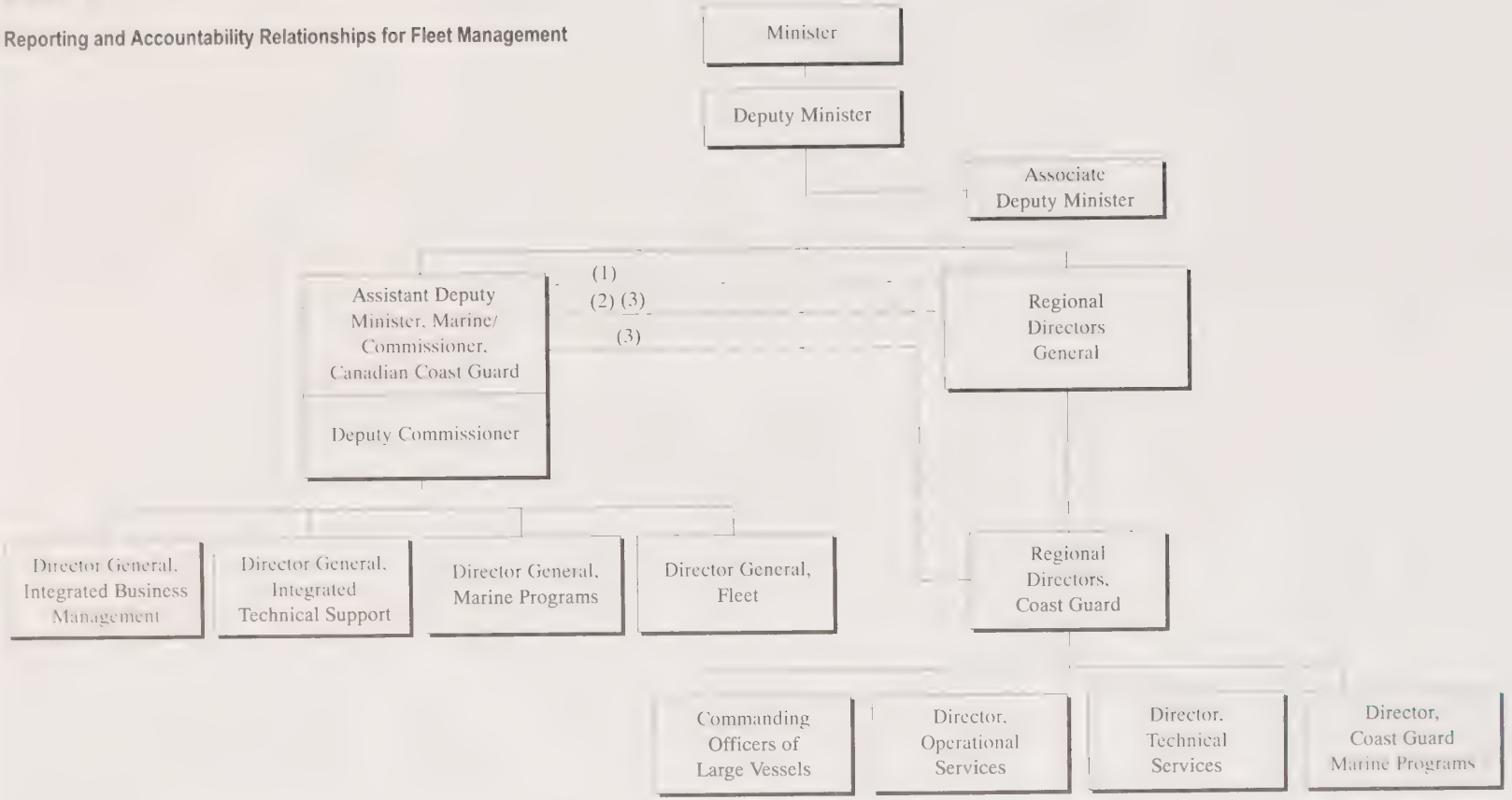
31.31 The Department manages the fleet through a "client service provider" model, in which the direct operating costs of vessels and crews are allocated to the programs that are recipients of the service. The large vessels of the fleet are generally used as multi-tasked platforms (that is, they can service the needs of more than one program). The client service provider model can allow for a form of internal accountability similar to that in a commercial arrangement (there is a type of internal market test of the service, although the capital, refit and maintenance costs of the vessels are not considered). Besides operating in a complex organization, the fleet is capital-intensive, with a high percentage of fixed annual costs (costs that cannot be avoided over the short term).

31.32 To work effectively, the client service provider model requires the following key elements:

- clear, concrete, realistic and agreed-upon performance expectations;
- long-term planning and funding to carry out the requested service;
- clear documentation of arrangements between the user and the provider;

Exhibit 31.5

Reporting and Accountability Relationships for Fleet Management



1 The Commissioner, in consultation with regional directors general, suggests resource allocation to regions based on regionally costed operational plans.

2 The Commissioner, in collaboration with regional directors general, establishes a system to monitor performance and report on results.

3 The Commissioner provides functional direction to regional directors general (and regional directors) regarding the national policy framework and national standards.

Source: Fisheries and Oceans

- fleet costing policies and practices that encourage the use of the lowest-cost alternative to acquire service while meeting departmental objectives; and

- information systems and practices to monitor and account for actual performance of the fleet in terms of service and cost.

31.33 As noted in the following sections, we found that many of these key elements are weak or missing.

Program performance expectations are short-term, unclear or unrealistic.

Program performance expectations are short-term, unclear or unrealistic

31.34 In order to achieve a program's expected outcome, fleet managers must know what service and how much service they are expected to provide with the funds allocated by program managers. These expectations must be clearly identified, concrete, realistic and agreed-upon by user and provider, and performance must be monitored and reported. However, we found that performance expectations are often short-term, unclear or unrealistic given the funding that programs have available or given the configuration and capabilities of the existing fleet. In addition, where there are short-term expectations for the fleet, they cannot be linked to the program's ultimate expectations, as the latter often are not articulated. We reviewed the stated performance expectations of the key users of the fleet.

31.35 Offshore search and rescue. Canada's responsibility for offshore search and rescue is defined within zones off our coasts. In 1993, the search and rescue program developed national level-of-service requirements that specified the type of vessel and equipment required for offshore search and rescue. The requirements also set out the need to have trained search and rescue specialists aboard any vessel responsible for offshore search and rescue. However, none of the Department's vessels have all of the essentials specified in the national level-of-service requirements. Some vessels do not carry the search and rescue equipment specified as required. Some vessels do not have appropriately trained rescue specialists aboard. The standard requires that vessels be deployed at sea within the offshore zone when assigned to primary search and rescue duties. Yet we found that vessels are often tied to the wharf while they are in offshore search and rescue status.

31.36 The Department does not measure all of the gaps in the search and rescue coverage. Where it does measure them, we noted inconsistencies in the measurement approach. Some regions, Newfoundland for example, reported a gap in coverage when the primary search and rescue vessel left the zone, although one or more fleet vessels still operated in the zone. Other regions, like Pacific, considered that fleet vessels performing other tasks in the zone were also covering search and rescue requirements. Inconsistencies in the way that gaps in coverage are measured make meaningful analysis difficult. The Department does not publicly report the extent of these shortfalls, the reasons for them, or their impact on marine safety. The Department has informed us that it does not believe that offshore marine safety has been negatively affected by these shortfalls.

31.37 Icebreaking. The level-of-service requirements for icebreaking specify which vessels are needed and when. The Icebreaking program held consultations with user groups and then developed a specific schedule for all vessels assigned to the Arctic and southern icebreaking operations. Essentially, the exercise determined the number, type and availability of vessels that the Department could afford for icebreaking duties. While this consensus building has strengthened the planning process, it does not provide

assurance to users that their expectations will be met.

31.38 Marine Navigation Services. The Marine Navigation Services program uses navigational aids tenders to place, service and repair fixed and floating navigational aids. Based on international commitments made by Canada, the program has an overall performance target for existing navigational aids of 99 percent operational reliability. In efforts to reduce costs, the program has introduced many changes to the navigational aids and the way they are maintained. All of these changes were designed to reduce the frequency of visits by fleet vessels to maintain navigational aids. Unfortunately, not all of these changes have worked out as planned; the fleet is called upon to visit these aids more frequently than anticipated. However, funding has already been reduced based on the anticipated savings from this new approach.

31.39 The Department recently carried out a study of the five types of aids that are used year-round. The study found that three types met the standard for reliability. Lighted floating aids and fixed aids whose lights operate 24 hours a day did not meet the standard. We noted during this audit that certain navigational aids in certain geographical areas are less reliable than others. The Department is currently assessing the implications of these results, but has yet to determine their impact on vessel use.

31.40 Science. The Science program annually determines its number of sea-days by estimating the number of days it can "buy" with the funds available for the year and the research vessels it traditionally has available for its work. There is some imprecision in this process because, during the year, some regions revise the estimated cost of providing the service. These revisions can be due to departures from the initial plan (for example, the use of higher-cost vessels than planned) or to higher operating costs than originally estimated by the fleet.

31.41 For the longer term, the Science program provided the fleet with a report entitled "2005 Science Strategic Plan Platforms", dated October 1998. This was a high-level summary of the program's need for support and some of the challenges it faces, given the fleet's current capabilities. The report also summarized vessel capabilities and provided potential scenarios for the replacement or modification of vessels.

31.42 While the Science program has provided more long-term information on its needs than other programs, we still noted areas for improvement. For example, the Science program is reassessing the Department's role in Arctic science. At this point, the Department does not engage in significant amounts of Arctic science. The program has not told the fleet how many days it potentially will need icebreakers. In addition, the icebreakers may have to be modified for this work. Another example is the upcoming need for support from the fleet for the Department's Oceans Strategy. The program has not yet informed the fleet of the strategy's implications for vessel requirements. Under the existing planning process, programs tell the fleet their exact requirements only after funding for new initiatives is approved. However, this does not always allow the fleet sufficient time to put in place the necessary vessels and crews to support the initiatives.

31.43 Fisheries Management. The enforcement requirements of the Fisheries Management program are communicated to the fleet on an annual basis only. Other departmental programs reduced the fleet services they requested by percentages similar to the funding reductions for the overall program; however, budget cuts in fisheries management were achieved almost entirely by reducing the number of fisheries enforcement vessels operated by the Department. Since 1995, the

Department has removed or is considering removing from service 29 fisheries enforcement vessels, leaving only 11 dedicated fisheries patrol vessels. While fisheries management is not willing to commit funding to the fleet, it expects the support of the fleet when situations arise such as the recent East Coast Aboriginal fishing dispute. Exhibit 31.6 illustrates the uncertainty faced by the fleet in planning for the fisheries enforcement vessel *CCGS Cygnus*.

A long-term perspective is needed for planning and funding.

Long-term perspective needed for planning and funding

31.44 The programs currently fund fleet operations annually. However, the Department is considering moving to a three-year planning period for the fleet. The fleet's vessels have a long life expectancy and are expensive and time-consuming to replace. The single largest operating expense for the fleet is the cost of crewing its vessels. Under existing collective agreements, any reductions in personnel require notification well in advance. Therefore, it is difficult for fleet managers to adjust to sudden shifts in program plans and funding.

31.45 Annual planning and funding process. The process to plan for the next fiscal year begins every fall, when each region's fleet operations group requests each program to indicate the amount and timing of sea-days it needs.

31.46 Based on that information, the regional fleet operations group develops an operating schedule. This preliminary schedule highlights any conflicts or gaps, which are then resolved through negotiations with program managers. The draft schedule is then costed by the fleet's MariTime fleet management system.

31.47 Next, the regional fleet plans are reviewed and amalgamated at national headquarters. The Departmental Management Committee approves the plans. Regional directors general are delegated budgets for marine programs, science, and fisheries management that include a component for funding the fleet. However, the amounts delegated for fleet operations may not reflect the cost projections made in the fleet planning process. For example, in 1999–2000 the funding allocated for fleet operations was $21.4 million less than the estimated cost of implementing the regional plans. This shortfall was made up through "temporary" allocations from the Deputy

Exhibit 31.6

Mid-Life Refit of the *CCGS Cygnus*

The *CCGS Cygnus* is a 62-metre offshore multi-task patrol vessel that operates primarily as a fisheries enforcement vessel. In 1995, the fleet proposed carrying out a mid-life refit of the *CCGS Cygnus* to extend its useful life to approximately 2017. With the Department undergoing funding reductions at the time, the fleet sought to confirm that the *CCGS Cygnus* fit into the long-term plans for fisheries management. Prior to planning the refit, the Maritimes Region confirmed that the *CCGS Cygnus* would be an essential part of the Region's fisheries management strategy. On 24 March 1997, the Deputy Minister approved the project for an amount not to exceed $10 million.

The refit of the *CCGS Cygnus* ultimately cost $11.3 million and was completed by December 1998. However, shortly after the *CCGS Cygnus* came back into service, fisheries management priorities changed from offshore to nearshore fisheries; also, the Region had insufficient budget to operate the *CCGS Cygnus*.

The Base Fleet exercise left the *CCGS Cygnus* without funding. Although the *CCGS Cygnus* was not funded, fisheries management provided temporary funding so that the *CCGS Cygnus* could provide support to fisheries enforcement during the recent disputes over Aboriginal fisheries issues. A final decision about the status of the *CCGS Cygnus* is on hold while this temporary funding is available.

This case is a good example of the impact that uncertainty in program expectations and funding can have on the cost-effectiveness of the fleet.

Minister's reserve funds and a reallocation from minor capital funding. Further, we found that it was not possible to trace budgetary amounts transferred to regions to ensure that they were, in fact, spent on fleet activities. This was because the regional directors general and Coast Guard regional directors have authority to reallocate funds intended for the fleet to other regional priorities.

31.48 Fisheries management and science managers have been dubious about the process used to fund the fleet for their activities. Indeed, regional managers have withheld funding until they were satisfied with the number of sea-days they would receive. We noted examples, in 1999–2000, where fleet operations had not received regional science budget transfers until August 1999 — five months into the fiscal year. By that time, most of the science fleet activity for the year had already been completed. However, we also noted examples at the regional level where the Coast Guard has absorbed the cost of services provided to fisheries management and science within its own marine programs.

31.49 The Department's processes for funding fleet operations are flawed. Budgets are not known by or allocated to regions until several months into the fiscal year. Annual plans are not achievable with the funds provided. Consequently, fleet managers must operate in an environment of financial uncertainty and must frequently adjust their plans on the basis of perceived risk and availability of cash. The one-year planning and funding horizon does not recognize fleet managers' limited flexibility to adjust costs in the short term.

31.50 Furthermore, the fleet funding process is time-consuming for both fleet and program managers. The process has been divisive, pitting programs against the fleet and region against region. Budget cuts have placed further stress on this unstable environment. The result has been funding decisions that fail to reflect both the expected performance outcomes of the programs and the reliable estimates of the cost of providing services, over either the short or the long term.

Arrangements not documented

31.51 The arrangements between the programs and the fleet are not formally documented in a service accord or contract that would provide for accountability between the user and the provider. Such arrangements are called for under the Department's management model and would help to ensure that service and funding commitments are met.

31.52 As Assistant Deputy Minister, Marine, the Commissioner of the Coast Guard is both the service provider and the client. In 1999–2000, the marine programs represented about 65 percent of the fleet activity nationally. A 1995 consulting study prepared for the Department noted:

> This blurring of roles appears to lead to a less clear definition of the "user needs" and a tendency to deploy assets so they have something to do, rather than deploying vessels in strict accordance with user needs. [Canadian Coast Guard] vessels do not appear to be client driven.

Current method of allocating costs discourages vessel usage

31.53 Vessel operating and crewing costs are allocated to programs based on the programs' proportionate use of each vessel. For example, if a vessel were used 60 percent for tending navigational aids and 40 percent for icebreaking, its total operating and crewing costs would be allocated to the programs based on those percentages. On the surface, this appears to be a reasonable basis for allocating costs.

31.54 According to the Department's management model, assets and resources are first and foremost departmental — to be used in the most cost-effective manner possible to achieve departmental

The costing methodology does not support the multi-tasking strategy.

objectives. To accomplish this objective, the Department has stressed higher use of vessels through multi-tasking. Under this strategy, a vessel can be assigned to complete tasks under any of the Department's programs as long as the vessel is capable of conducting the task. However, because no one vessel may be ideally suited to meet the needs of all of the programs, the current method of allocating costs may result in a program being allocated costs for a capability that it does not need.

31.55 We observed instances where program managers refused to use available vessels, as they did not want to incur the allocated costs of vessels, which they think are too high given the service provided. However, while a program may avoid being charged the cost of a vessel, the Department continues to absorb all of the fixed costs and, in the end, may have an underutilized vessel. Thus, the costing methodology used for the fleet activity does not support the multi-tasking strategy.

31.56 We also observed instances where regional fleet managers agreed to provide services to programs at less than the usual allocated cost. However, the Department's operational and financial systems and costing practices do not currently provide for such arrangements. In the end, the program is charged the usual allocated cost of the vessel despite the agreed-upon arrangement. Such misunderstandings have affected the working relationships between the fleet and its users. Exhibit 31.7 describes a cost-sharing arrangement established by the Newfoundland Region.

31.57 We noted that departmental managers spent significant amounts of time disputing or trying to understand allocations of fleet time and costs. In many instances, they disagreed over relatively small amounts. In our opinion, this wasted effort is at least partly attributable to a costing methodology that does not support departmental objectives or encourage vessel use at the lowest cost to the Department.

Inadequate information to monitor and account for fleet performance

31.58 We expected that the fleet would have the information necessary to monitor and account for its actual performance in terms of service and cost. However, we found that this kind of information is generally not available.

31.59 We identified the following problems:

- Fleet information is maintained in many departmental systems that are not integrated.

Exhibit 31.7

Example of a Cost-Sharing Arrangement in the Newfoundland Region

In the Newfoundland Region, the fleet proposed an arrangement whereby it would provide fisheries enforcement support at the same time that it was conducting offshore search and rescue. The Newfoundland fisheries were concentrated in areas 20 to over 200 miles offshore, yet there was little fisheries enforcement in that area. Since most of the search and rescue risks revolved around the fishery, such an arrangement was a good example of the effectiveness of the Department's multi-tasking strategy.

The fleet proposed to take the remaining fisheries enforcement budget of $250,000 and provide a minimum of 130 fisheries enforcement sea-days. The cost to fisheries enforcement was about $1,900 per day — only 25 percent of the cost of the vessel that was to have provided the largest portion of the service. In the end, the fleet provided about 136 multi-tasked sea-days to fisheries enforcement.

Although the arrangement had called for fisheries enforcement to be charged only $250,000, it was actually charged about $630,000. The Department's cost accounting methodology provides only for the allocation of costs based on the program's proportionate use of the vessel.

- Most fleet performance information is not available until four to five months after year-end.

- Information systems often provide conflicting results.

- Information is not available that compares budget amounts transferred to the fleet with the actual cost of the service.

31.60 The objective of the government's Financial Information Strategy (FIS) is to provide managers, Parliament and the public with more relevant, reliable and timely financial information for government activities and program performance. It is also intended to integrate operational information with financial information. Our audit raised the types of management issues that FIS is designed to deal with. The Department has informed us that the basic elements of FIS should be implemented by the 1 April 2001 deadline. However, full integration of financial and operational information is still several years away.

Need to improve stewardship reporting

31.61 In its reports to Parliament, the Department identifies fleet management as a separate business line. However, under this business line the Department reports only the costs of the shore-based staff and operations, capital acquisitions, refit and maintenance. The sea-based costs of vessels — including salaries and operating costs — are allocated to the other business lines that the fleet supports. In its 2000–01 Report on Plans and Priorities, the Department clarified for the first time this approach to reporting fleet costs.

31.62 The Department's method of allocating fleet costs to the other business lines is not reliable. We found problems with the processes used to accumulate and allocate the sea-based costs of vessels. This unreliable information is included in the Department's Performance Report. The accountability process set out in the Performance Report is called into question because the explanations for variances between actual and budgeted expenditures are based on unreliable, reported actual expenditures.

31.63 Although the Department knows that the fleet is unable to meet even some of the most basic service expectations, it has not made a consistent attempt to either track or disclose the nature and extent of these gaps in service.

The Department's strategic plan — the roadmap forward?

31.64 The Department's March 2000 Strategic Plan is a forward-looking document that highlights the need for, among other things, mandate renewal and a focus on organizational effectiveness. We believe that our observations about the organizational structure and accountability relationships of the fleet and the supporting management processes are consistent with issues identified in the Strategic Plan.

31.65 Uncertainty, financial restraint and shifting expectations have greatly impacted the Department's programs and, specifically, the fleet activity. The Strategic Plan states:

> In recent years, the pressures of changing program demands, increased public awareness and technological advancement have led to dramatic shifts in [Fisheries and Oceans'] operating environment. Focusing exclusively on cost cutting without understanding the underlying policy implications can lead to ad hoc decision-making and ultimately to organizational ineffectiveness.

31.66 Clearly this section of the Strategic Plan could apply to the Department's fleet activities.

31.67 **Summary.** Key elements necessary to manage the fleet cost-effectively are not in place. These elements are important to the success of

the Department's management model and the fleet's role as a service provider.

31.68 In our view, there is a need to focus more clearly on determining expected outcomes of programs. These outcomes must be translated into specific performance measures and goals. With an increased focus on program results, the programs can be more specific in requesting support from the fleet.

Key elements necessary to manage the fleet cost-effectively are not in place.

31.69 The use of short-term funding results in instability and uncertainty for the fleet. Managers of a capital-intensive program with high fixed costs are hard pressed to make good management decisions in the face of such uncertainty. In order for the fleet to provide a cost-effective service, fleet managers must receive assurance of funding and the expected level of service for a longer period than the current one-year planning horizon. While the three-year planning horizon the Department is considering would be an improvement, a five-year horizon would fit more closely with the capital planning process of the fleet.

31.70 Information necessary to monitor and account for the fleet's actual performance, in terms of service and cost, is not available. The current method of allocating costs to the programs discourages their use of vessels.

31.71 In the end, we are left to question how anyone in the Department can be held accountable for the cost-effective delivery of the fleet service. While we believe that fleet managers and program managers understand their respective roles within the management model, both are equally frustrated over their inability to make the arrangement work satisfactorily.

31.72 The Department should review how the fleet fits into its current organizational and accountability structure and take measures to ensure that the fleet can operate in a cost-effective manner.

31.73 The Department should address the weaknesses associated with its key fleet management processes, including:

- **establishing clear, concrete and realistic program performance expectations that include a long-term perspective;**
- **establishing a long-term fleet planning and funding horizon;**
- **developing service accords between the programs and the fleet;**
- **establishing budgetary processes that support accountability;**
- **setting up integrated information systems to enable the Department to monitor and account for the actual performance of the fleet in terms of service and cost; and**
- **implementing costing policies that support the use of the lowest-cost alternative in acquiring service while meeting departmental objectives.**

Vessel Life Cycle Management

Life cycle management — a government requirement since 1995

31.74 In 1995, the government issued its policy on materiel management, requiring departments to manage their materiel resources, including vessels, using a life cycle approach. The policy states that when planning, acquiring, using and disposing of assets, departmental operating requirements should be met and value for money achieved. Essentially, life cycle management is used to manage the total cost of ownership of an asset over its lifetime.

Slow progress in implementing life cycle management

31.75 The fleet's policies and procedures for life cycle management have been under development since 1998. A manual has been produced that suggests best practices for the refit and

maintenance of vessels. However, the Department's most optimistic date for complete implementation is 2005. Although there is still no formal life cycle approach in place, we examined how the fleet manages the major stages of the life cycle.

Assessing and planning fleet requirements

31.76 **The "Base Fleet."** During 1999–2000, the Department undertook an extensive exercise to determine the number of vessels the fleet needed to meet essential program requirements. The "Base Fleet" exercise resulted in a recommendation that 108 vessels be funded for operations during 2000–01. Thirty-six other vessels would be held in lay-up status for future use or would be decommissioned and sold.

31.77 The "Base Fleet" exercise had a positive impact in that both the programs and the fleet spent considerable time balancing known ongoing requirements with the capabilities of the fleet's existing vessels. The exercise will be important to fleet managers because it will provide the basis for future cost-saving decisions in areas such as crewing and disposal of vessels.

31.78 Because the "Base Fleet" exercise focussed largely on the program requirements of individual regions, the Department did not achieve the potential efficiencies it might have gained through a better matching of national requirements to available vessels. By subdividing the fleet into five distinct regional units, each with its own operating processes, procedures and support, the Department has missed opportunities for greater sharing of resources and for better productivity in providing the service. For example, due to lack of funding, in 1999–2000 the Maritimes Region did not operate the 14-year-old *CCGS Edward Cornwallis*, an icebreaking navigational aids tender. At the same time, the Newfoundland Region was operating two icebreaking navigational aids tenders far older at 41 and 33 years.

31.79 Several of the regions stated that the final approved "Base Fleet" plan does not meet their regional operating requirements. These regions have continued to lobby internally for either more funding or the reallocation of vessels to their region. The final "Base Fleet" plan still forecasts a current-year shortfall in program funding of $14.3 million and gaps in the fleet's capability to meet ongoing program requirements.

Life cycle management has not been implemented.

31.80 **Long-term capital planning.** In June 2000, the Treasury Board approved the Department's Long-Term Capital Plan. We reviewed the fleet component of the new plan and the processes supporting its development. According to the Department, there has not been a fleet capital plan since 1987 for the former fisheries and science fleets or for the Coast Guard fleet.

31.81 From the fleet's perspective, the Department's Long-Term Capital Plan does not represent a realistic or true picture of the fleet's long-term capital needs. We base this conclusion on the following observations:

- The long-term program requirements have not been clearly established. Changes in technology or approach (for example, modernization of aids to navigation) can alter the need for vessels. Without establishing these requirements, the long-term need to replace a vessel — or even which type of new vessel to acquire — cannot be determined with certainty.

Opportunities exist for better sharing of resources among regions.

- The projects identified in the Plan represent a "wish list" of maintenance and replacement projects prepared by the regions and accumulated by headquarters. The list was not screened to determine whether all the projects were appropriate or required. For example, if all of the projects were approved and funded, most of the Department's large vessels would

be out of service for refit during some period of the Plan's five-year time frame. It is not realistic to believe that the Department could deliver its program objectives with so many vessels being taken out of service.

31.82 Prior to the current Long-Term Capital Plan, availability of funding drove the fleet capital planning process. The fleet has not put together a persuasive and realistic analysis to support its capital requests. Projects were funded on a case-by-case basis, depending on the funds available. The capital planning process causes numerous management difficulties. A recent fleet assessment completed as part of the Coast Guard's headquarters renewal stated:

> The problems with the current situation are that it induces a high degree of uncertainty for approvals and long delays are incurred. As a consequence of the capital funding shortfall, it becomes more important that available funds be utilized in the optimal manner. A net result of the delays and uncertainties is higher maintenance costs and repercussions on operational and [human resources] plans such as deployment, training and recruitment. Approvals and delegations typically come very late in the fiscal year, when it is too late for procurement action in the same year, resulting in lapsed funds and a further deteriorating asset base.

31.83 In a recent Treasury Board submission, the Department alerted the Board that it was going to undertake a study "for a potential Major Crown submission aimed at revitalizing the larger cornerstone elements of the [Fisheries and Oceans] fleet." Funding for such an initiative was estimated at between $300 million and $400 million. Before proposing major reinvestments in the fleet, the Department needs to consider the changing nature of program requirements, the impact of technological change, and whether the service could be acquired by alternative means.

31.84 Acquiring vessels. During the course of the audit, the fleet was considering the acquisition of several vessels, including the replacement of the 1000-class, ice-strengthened, medium navigational aids tenders. This proposal was in the early pre-approval stages and therefore we did not include the acquisition process within the scope of this audit. We did note that while funding remains uncertain for a number of these "planned" acquisitions, fleet personnel have been developing acquisition plans for the 1000-class vessels since at least 1996.

Accountability for cost-effective fleet operations

31.85 Operational planning and scheduling. The five regional operations centres (ROCs) are responsible for the operational planning for the fleet and the scheduling of individual vessels. Each Centre reports through the regional Coast Guard director. While the ROCs play an important role in determining the cost effectiveness of the fleet, we found that there is no means available to hold them accountable for their role in operational planning and scheduling.

31.86 No national system is in place to regularly monitor or analyze the efficiency and economy of the fleet use or to determine the results achieved. Nor are there fleet performance standards or expectations that can be used to plan for the fleet. However, in the Newfoundland Region we observed that the ROC reports monthly to the program managers on the planned vessel activity compared with actual activity. In this instance, the program managers and fleet managers meet to discuss operational issues, including any variance from the monthly vessel schedule.

31.87 We noted variations in scheduling practices from region to region. For example, in certain regions vessels tasked to primary offshore search and rescue are not simultaneously tasked to tend navigational aids. In the Pacific Region,

however, one of the three vessels tasked to primary offshore search and rescue can at any time also be tasked to tend navigational aids. Such regional interpretations of operational policy and procedures can limit the potential for improving efficiency.

31.88 There are opportunities to improve the co-ordination between regional fleet operations and the programs they serve. For example, in certain regions navigational aids are transported, where appropriate, by truck to convenient, cost-effective locations for later pick-up by a vessel. In other cases, however, we noted that vessels made regular long-distance transits back to the base of operations to pick up or drop off navigational aids.

31.89 **Fleet safety standards.** The fleet is voluntarily implementing the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code). This important international code requires that roles, responsibilities, policies and procedures be established for the safe operation of vessels and the prevention of pollution by vessels. Fleet headquarters establishes the practices that regional operations must implement in order to meet the ISM Code and is monitoring regional implementation and compliance. The introduction of the ISM Code is an important step toward standardized fleet practices.

Operating without timely, reliable and integrated information

31.90 In the private sector, fleet managers get the information they need to manage their vessels through integrated ships' information systems. Information is available on financial results, costing, maintenance and repair, purchasing, crewing and payroll management, ISM Code compliance, and training management.

31.91 By contrast, we found that Fisheries and Oceans fleet managers do not have similar information readily available. Moreover, the information that they do have is not integrated with other financial and operational information to make it useful to managers, is not available on a timely basis, and is not reliable for decision-making purposes.

31.92 The problems associated with the information systems can be illustrated in the area of human resource management. The fleet uses three main information systems to manage human resources. These systems are not well integrated. For example, information on new employees must be entered separately into each system. This creates the opportunity for errors and conflicting data and is inherently inefficient. Timing differences in these systems mean that they can produce different information. While these systems can produce considerable data, regions maintain their own manual and computer-based systems to help them manage the fleet's human resources.

31.93 During our audit, we continually had difficulty obtaining routine information about the fleet and its management. For example, information on the costs allocated to individual vessels for the year ended 31 March 2000 was not available until three months later. Managers cannot obtain the same information throughout the year because of limitations in the systems.

31.94 The Deputy Minister has issued instructions that managers should stop using so-called "black book" systems — that is, informal, non-sanctioned means of recording information. However, we found that many managers continue to keep such records. That they do so despite the Deputy Minister's instructions to stop is a good indication of the problems associated with the Department's formal information systems.

The ISM Code is an important step toward standardized fleet practices.

Maintenance — the need for a national, fact-based approach

31.95 In various submissions to the Treasury Board and its officials, the Department has provided information on the implications of long-term underfunding of capital and maintenance budgets for the fleet. The Department's position is that its vessels are aging and that operating and maintenance costs for the vessels and the risks to their safe operation are therefore rising. While this hypothesis seems reasonable, we could find no analysis to support the Department's position.

31.96 In recent years, the fleet has carried out only the maintenance necessary to ensure that vessels receive certification by Transport Canada's Ship Safety Branch to operate and to safely meet operational requirements. Traditionally, the fleet was maintained in a manner that would allow vessels to operate well beyond their 30-year average expected useful life. The decision to change maintenance practices was based on funding constraints.

31.97 We expected that fleet managers would regularly review the operating status of vessels, using information on each vessel's ability to perform its tasks and to operate safely and cost-effectively. However, fleet managers currently make replacement and maintenance decisions based on their best estimate of the condition and operating cost of each vessel, with little analysis supported by facts.

31.98 The Department is currently implementing the Materiel Information Management System (MIMS), which will be used to track the costs of repairs and maintenance of fleet assets. While MIMS should go a long way in providing management information in the future, the fleet does not have the complete historical information to input into MIMS so that it can operate effectively for the existing vessels.

31.99 Each vessel operates a ship-based system called the Predictive Upkeep and Maintenance Program (PUMP). PUMP provides information for the vessel's chief engineer on routine maintenance and inspections that are required or have been completed. This system is important for ensuring that required maintenance work is identified and completed, especially given the increasing frequency of rotation of the chief engineers.

Costliness of vessels in lay-up status

31.100 The "Base Fleet" exercise calls for 36 vessels to be held in lay-up status for future use or to be decommissioned and sold. The fleet does not separately identify the cost of vessels in lay-up. We found that lay-up can be expensive.

31.101 For example, the *CCGS Edward Cornwallis* was in lay-up status for over a year due to lack of funding. During that time, the fleet was awaiting a decision on whether the *CCGS Edward Cornwallis* would be used as a science platform. The vessel was non-operational in 1999–2000, except for about two weeks, yet it incurred $1.2 million in salaries and operating costs. The *CCGS Edward Cornwallis* has subsequently gone back into service, not as a science vessel — but largely to provide an offshore search and rescue capability.

31.102 Another example is the *CCGS Sir John Franklin*, an icebreaker in the Newfoundland Region, which was declared surplus in 1996. It was subsequently placed into service in both the Laurentian and Newfoundland Regions as a replacement vessel, and was placed into lay-up effective March 1999. During 1999–2000, it cost $440,000 to maintain this vessel in lay-up status. Subsequently, when it was not included as one of the vessels funded through the "Base Fleet" exercise, the Department

decided to dispose of the *CCGS Sir John Franklin.*

31.103 There is no national guidance on the most cost-effective means of maintaining vessels in lay-up status. We note that in this respect, as in many others, practices vary among regions. In the Central and Arctic Region, which operates seasonally, vessels in long-term lay-up status are monitored through remote sensors and thus require no crew to be aboard. In contrast, the Maritimes Region maintained the *CCGS Edward Cornwallis* with a reduced crew of five to six people during most of the period it was in lay-up status.

31.104 Once the Department has identified vessels that are surplus to its needs, they become the responsibility of Public Works and Government Services Canada, which handles the remainder of the disposal process. This aspect of the disposal process was outside the scope of this audit.

31.105 Summary. The fleet currently does not operate its vessels using the life cycle approach. This approach has been under development for a number of years but is still not nearing implementation. By using inconsistent practices in managing the fleet, the Department is missing opportunities to achieve greater efficiencies and to share good practices.

31.106 The Department should consider a longer-term strategy to renew its aging fleet. Such a strategy should take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the service needed.

31.107 The Department should complete the development and implementation of life cycle management policies and procedures for its fleet.

31.108 The Department should ensure that the fleet activity is supported by information systems that produce integrated, timely, reliable and relevant information.

Managing the Fleet's Human Resources

The fleet's single largest operating expense

31.109 In 1999–2000, salaries and related expenses represented about 79 percent of the vessel operating costs allocated to the programs. At 1 April 2000, 756 officers and 1,308 crew were assigned to vessels, although the number of people varies during the year depending on seasonal requirements.

31.110 Because the fleet is not a separate organizational unit, it is difficult to determine which shore-based human resources are directly involved in supporting it. Based on information obtained from each region, interviews with managers, and a review of organization charts, we conservatively estimate that there are about 447 full-time-equivalent shore-based positions that provide direct support to the fleet (see Exhibit 31.8). Also, approximately 55 positions associated with the Canadian

Exhibit 31.8

Shore-Based Positions that Directly Support the Fleet

July 2000

	Headquarters	Regions	Total
Operations	52	153	205
Technical Support	16	171	187
Other Administrative Support	0	55	55
Direct Shore-Based Support	**68**	**379**	**447**
Coast Guard College			55
Total Shore-Based Support			**502**

Source: Fisheries and Oceans

Coast Guard College provide training support directly to the fleet. Still other positions, in areas such as finance and information technology, provide indirect support to the fleet; however, it was not possible to estimate their number.

Need for a human resource plan

The fleet does not have a human resource plan.

31.111 The fleet has faced considerable funding reductions since 1995. However, it has not prepared a human resource plan that establishes the basis for determining the number and types of personnel required to operate and support the reduced number of vessels in the fleet.

31.112 In 1995, the Coast Guard fleet completed a comprehensive review of vessel crewing practices and procedures. The review recognized the need for a policy framework for vessel crewing. Also needed were guidelines to ensure a consistent approach from region to region, improved training, better scheduling practices for leave and training, rotation of ships' officers, pooling for ships' crews, and improved management of overtime costs. Although there has been some progress on the issues that focussed on cost reduction, the fleet did not establish a plan to implement the review's recommendations. In fact, we found that many of these concerns still exist within the fleet.

The impact of human resource issues on operations

31.113 National guidance on human resource matters is inadequate. Like many other areas in the fleet, there is inadequate national guidance for human resource matters. Consequently, there are variations in human resource practices among the regions, and regional interpretations of collective agreements with employees.

31.114 Managing collective agreements. The fleet operates under two main collective agreements with its seagoing personnel — one for officers and one for crews. However, these collective agreements generally reflect the operating conditions of the federal public service as a whole except for the lay-day provisions. The fleet lay-day system predominantly uses a work period of 28 continuous days followed by a leave period of 28 days (it can be any period up to 45 days). During the 28-day work period, each crew member works 12 hours a day, seven days a week.

31.115 Use of provisions associated with more regularly scheduled public service positions in a lay-day system has proven to be particularly problematic. For example, a recent dispute over annual leave entitlements resulted in a 51-page adjudicator's decision and in most ships' officers having their annual leave entitlement doubled. It also resulted in an inequitable situation with most officers now receiving double the leave of the few officers who are not covered by the decision. We are concerned that the existing collective agreements are complex and difficult to administer.

31.116 The collective agreements include a premium paid when more than 45 lay-days have been accumulated. However, icebreaker crews are deployed in the Arctic for periods of up to 42 days. Crew members having more than three accumulated lay-days at the beginning of an Arctic deployment could be eligible to receive the premium, thus increasing costs.

31.117 Collective agreements and fleet funding formula constrain the flexibility of vessel scheduling. We reviewed the fleet's method of justifying the funding required for salaries, training and other personnel costs. The funding process, called the 10–2–1 formula, is based on the annual operation of vessels using thirteen 28-day cycles. Ten cycles are funded for operations, two for lay-up and one for an annual refit.

31.118 The fleet attempts to operate its vessels on a 10–2–1 schedule because of the existing collective agreements and

funding limitations. However, this schedule can be problematic from an operational perspective. For example, while some vessels actually operate for 10 cycles per year, most operate for more or fewer than 10 cycles.

31.119 In reality, management has decided to operate the vessels in a way that allows officers and crew to use up the significant leave entitlements (annual, lay-day and overtime) accumulated under normal operations according to their existing collective agreements. If management were to do otherwise, the cost of operating the vessels would be prohibitive. Prior to 1995, the fleet had sufficient flexibility to manage the accumulation of leave by using officer and crew relief pools. Later, as part of cost reduction initiatives, the Department eliminated relief pools. This has constrained management's flexibility to schedule ships' personnel and to provide service to the programs.

31.120 Managing sick leave and work-related injuries. According to the Department's MariTime fleet management system, sick leave used in 1999–2000 totalled 68,410 hours for ships' officers and 120,419 hours for ships' crews, with 95 percent of the sick leave used by personnel in indeterminate positions. The MariTime fleet management system reports that the average sick leave used by ship-based indeterminate personnel was 115 hours per year, or roughly the full amount of sick leave allotted each person each year. However, the reported use of sick leave by indeterminate seagoing personnel in the Maritimes Region averaged about 160 hours each. In contrast, sick leave in the public service is 67 hours a year. We were also informed by managers that there is a seasonal pattern to sick leave usage. Seagoing personnel who report in sick must be replaced in order that the vessels can sail. Replacements are often paid overtime, which adds to the cost of operations. We found no evidence that managers have attempted to understand or reduce the use of sick leave.

31.121 We also noted that the fleet incurs a high proportion of the Department's disabling injuries. In 1999, the fleet accounted for 71 of 88 such injuries (in 1998, it was 65 of 75). On 1 April 2000, there were 71 fleet employees on long-term disability. There are safety committees on each ship and throughout the fleet. However, statistics on sick leave and injuries suggest that management needs to focus more on these issues.

31.122 Managing overtime costs. At 1 April 2000, the Coast Guard had about 3,676 full-time-equivalent positions. This represents about 43 percent of the Department's staff. In June 1999, the Department's Corporate Services, Human Resources Directorate issued a report on overtime management. The report noted that the Coast Guard had incurred 70 percent of the Department's $33 million expenditure on overtime in 1998–99, the largest portion of which was incurred by fleet personnel. The report authors could find no evidence that managers were trying to reduce overtime costs.

31.123 Managing the leave liability. Officers and crew are entitled to annual leave and to leave as a result of overtime and other lay-day provisions of the collective agreements. As described earlier, the 10–2–1 system is designed to permit the use of this leave during the two lay-up cycles and, to a lesser extent, the refit cycle. In order to meet program requirements, regions often operate the vessels for additional cycles. This reduces the opportunity for seagoing personnel to use their leave. The situation is having two negative consequences for the fleet:

- When officers and crew take leave entitlements rather than being paid out, it may be during operating cycles. These personnel must be replaced, often by employees who receive overtime. This adds to the cost of operations and,

The leave liability is increasing.

potentially, further increases the Department's leave liability.

- The fleet estimates that the total leave liability at 31 March 2000 was $23.8 million ($17 million in 1999), with the Maritimes Region accounting for about $7.6 million of this ($5.1 million in 1999). Not all of these amounts have been entered into the Department's formal accounting records. In not recording the liability when it was incurred, the fleet has consistently understated its operating costs. When the Financial Information Strategy comes into effect on 1 April 2001, the full unrecorded leave liability will have to be entered into the Department's accounting records.

31.124 Vessel crewing requirements. Since our audit of the fleet in 1989, the total number of seagoing personnel and the sizes of crews on each vessel have been reduced. However, we have noted differences in the crewing levels of similar vessels operated in different regions. For example, an 1100-class navigational aids tender engaged in work on navigational aids in the Newfoundland Region has a crew of 24, while the same vessel in the Pacific or the Central and Arctic Region has a crew of 26. Newfoundland Region vessels do not carry a logistics officer and have one fewer steward than the other regions. Competency profiles, required under the ISM Code, are being developed regionally and will establish the number of positions by vessel. However, as with many of the issues we have identified, we could find no national analysis to explain the differences in crew sizes or to share best practices that could allow for a common approach.

Ensuring that properly skilled personnel are available

31.125 During our interviews with the Department's internal users of fleet services, we were invariably informed that the quality of the fleet personnel was high. We reviewed a number of factors to determine whether fleet personnel had appropriate knowledge, skills and competencies.

31.126 The fleet is in the process of developing for each position on each vessel a competency profile that will meet the requirements of the ISM Code. It is also developing a profile of the various program tasks that each vessel performs. Those profiles are complete or there are work plans in place to develop them.

31.127 The fleet has a system to track hazardous occurrences. Between April 1999 and February 2000, 68 hazardous occurrences were reported. Two of them were potentially serious — one was a near collision and the other was the partial flooding of an engine room. Both incidents were attributed to the inexperience of the crew. In the first instance, the captain was not familiar with the nature of the operations; in the second, the engine room staff were not familiar with the vessel.

31.128 The officers and crew of the fleet are required to develop and maintain a wide range of skills and knowledge. The fleet has identified a shortfall of $1.55 million in the 2000–01 training budget to meet basic technical training requirements. Some of these training requirements were identified as part of the ISM Code implementation.

31.129 We also noted that a number of ship-based personnel are given shore-based assignments, often because of personal preference. Such assignments can be useful from an organizational and personal development perspective. However, the fleet has not identified all of these rotational positions, established criteria for staffing them or ensured that assignments come to a definite end. Because these personnel are "assigned" to vessels, this practice also increases the reported operating costs of individual ships.

31.130 We also reviewed the attrition rate among officers. According to the

fleet, regions lost the following proportions of their officers over the last two years:

Central and Arctic	13 percent
Pacific	11 percent
Laurentian	10 percent
Newfoundland	6 percent
Maritimes	4 percent

31.131 While these numbers are not alarming, they are a concern because the losses are occurring primarily among junior officers who represent the future officer core. The turnover is also a concern because it takes six to eight years to recruit, educate and train officers, and the demand is growing in the marine industry for qualified officers. The average age of an officer is 44.

31.132 We found that officers and crew in the current complement are highly skilled. However, there is no plan for ensuring that the fleet will continue to recruit, retain and train sufficient personnel into the future. All of these factors combined suggest that the fleet needs to prepare a long-range strategy for replenishing its officers and crew and continuing to develop and maintain their skills and knowledge.

Shore-based support is too large given the current size of the fleet

31.133 We reviewed the number of shore-based staff who directly support the fleet. Exhibit 31.8 shows the distribution of the shore-based staff. The fleet has a ratio of about one shore-based position directly involved in supporting operations for every four seagoing staff members.

31.134 In trying to determine the reasons for this ratio of shore personnel to seagoing personnel, we observed the following:

- The fleet makes extensive use of term, seasonal, casual and temporary employees to staff what are often, in substance, indeterminate positions (see Exhibit 31.9). The requirement to continually staff these positions creates an administrative burden. For example, the Maritimes Region has 108 positions classified as seasonal or term. These are often, in reality, full-time indeterminate positions because of the limited extent to which the work in that region is seasonal. It can take several months to establish an eligible list for term positions. We noted instances where regions had to make casual appointments because of the length of time it took to staff term positions. This interim measure resulted in two staffing actions to fill one position. Not only do these "revolving door" situations create an administrative burden, but employees are also suffering stress and low morale due to long-term uncertainty about their status. We noted that some term positions have been converted to indeterminate because employees have had five years of uninterrupted service.

Shore-based support is too large.

- Scheduling of crews is difficult and time-consuming. Under the ISM Code, the ship is not supposed to leave port unless

Exhibit 31.9

Ships' Personnel by Employment Status

January 2000

	Number	Percentage
Crew		
Indeterminate	896	61
Seasonal, Casual, Terms and other	563	39
	1,459	
Officers		
Indeterminate	646	83
Seasonal, Casual, Terms and other	131	17
	777	

Source: Fisheries and Oceans

all essential positions are filled. Therefore, when a crew member scheduled for work is sick or requests annual leave, shore-based scheduling staff must quickly find a replacement if the vessel is to leave as scheduled. This requires extensive adjustments to work schedules and last-minute redeployment of people. Systems to manage the work schedules of employees are complex, requiring substantial support to enter, analyze and correct data.

31.135 We also noted that operating five separate regionally based fleets contributes to the number of shore-based personnel. On the Atlantic coast, there are three separate regional organizations to support a planned total of 26 large vessels. Each region maintains a separate operations centre and separate engineering, technical support and administrative arrangements. These multiple structures may no longer be appropriate given the reduced size of the fleet.

The fleet has not focussed on managing its human resources.

31.136 Summary. We are concerned that the fleet has not focussed attention on managing its human resources, despite the fact that they represent about 79 percent of the vessel operating costs allocated to the programs. Difficulties associated with planning for the fleet have resulted in a situation where there is inappropriate use of seasonal jobs, inordinately high use of term employees, inadequate training to meet operational requirements, and collective agreements that effectively limit vessel use and complicate crewing. In addition, shore-based support is excessive given the reduced current size of the fleet. We are concerned that the Coast Guard knew as early as 1995, prior to the merger, about many of the issues that we have reported, yet management has taken little action.

31.137 The Department should develop a human resource strategy for the fleet to address the need to maintain the skills and knowledge of ship-based personnel and to ensure that a sufficient number of qualified officers and crew are available in the future. The strategy should consider a long-term approach to the collective agreements with ships' personnel so that they can be administered in an efficient and economical manner and can support the fleet's operational requirements.

31.138 The Department should regularly analyze payroll costs related to the fleet and take action to control such costs, where necessary.

Conclusion

31.139 As noted in the chapter we found weaknesses in key management practices in each of the areas we audited — levels of service and accountability, life cycle management and human resource management. To ensure that the fleet service is provided in a cost-effective manner, we believe that the resolution of these weaknesses requires management's prompt action.

Fisheries and Oceans' overall response: *Fisheries and Oceans accepts the Auditor General's findings, and is committed to finding solutions to the shortcomings. To this end, a study is already under way that will derive a series of strategic options for fleet management. Following the completion of this study, its recommendations will be reviewed and an Action Plan with concrete timelines and accountabilities will be developed to address each of the following issues:*

1) fleet operational requirements and planning;

2) fleet resource allocation and reallocation;

3) resource utilization and redeployment mechanisms;

4) fleet management support;

5) vessel crewing;

6) fleet performance management and costing systems; and

7) relevant management roles, relationships and interfaces.



About the Audit

Objectives

The objective of this audit was to assess the extent to which Fisheries and Oceans manages the fleet to meet the current and long-term needs of users in a cost-effective manner.

Scope

We examined three key aspects of the Department's management of the fleet:

Mandate, mission and levels of service. We reviewed the extent to which the Department had clearly established the mandate and mission of the fleet, and whether expectations on levels of service were defined and met. We also examined accountability arrangements between the fleet and users and the long-term funding arrangements for the fleet.

Life cycle management. We reviewed the way the Department assesses the requirements for vessels, manages the use and maintenance of vessels and administers disposals.

Human resource management. We examined the way the fleet ensures that it has the appropriate number and types of human resources to provide fleet services in a cost-effective manner.

Criteria

We expected that:

- the Department's management of the fleet would be based on a clearly established mandate and mission;
- accountability relationships for achieving the cost-effective delivery of the fleet services would be clearly articulated and monitored;
- the fleet would require the Department's programs and/or other government departments, where appropriate, to specify in quantifiable terms the short- and long-term need for services;
- the fleet would obtain the funding necessary to carry out the level of service requested by the Department's programs;
- the Department would employ the appropriate management systems and practices, including life-cycle management processes, required to provide the requested fleet services in a cost-effective manner; and
- the Department would use the appropriate number and type of human resources required to provide fleet services in a cost-effective manner.

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Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

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Chapter 32
National Defence – Defence Support Productivity: A Progress Report

December 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 32

National Defence – Defence Support Productivity: A Progress Report

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 32

National Defence

Defence Support Productivity: A Progress Report



The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

	Page
Main Points	32-5
Introduction	32-7
Findings of the 1996 Defence support productivity audit	32-7
Focus of the audit	32-7
Observations and Recommendations	32-9
Business Planning	32-9
Cost information is still lacking	32-9
Efforts to develop an activity-based costing capability have been delayed	32-10
Base/wing level staff are frustrated with the business planning process	32-11
Status of performance measurement	32-12
Operating Budgets	32-12
What is an operating budget?	32-12
Impact of the devolution of operating budgets	32-12
Efforts to address problems associated with devolution of operating budgets	32-13
Culture Change	32-13
Efforts to reform culture lack a blueprint for change	32-13
Co-ordination of Change	32-14
Alternative Service Delivery	32-16
Two major alternative service delivery projects are expected to deliver savings beginning in 2004	32-16
Corporate Productivity — Individual Training	32-17
National Defence has a large training system	32-17
Performance measures have not been implemented	32-18
Labour productivity in schools appears to have decreased	32-18
Forecasting production requirements has presented a challenge	32-19
Strategic guidance to training staff has been weak	32-20
The goal for validation of individual training has yet to be met	32-20
Problems with the training management system exist	32-20
Costing of individual training is inconsistent	32-21
Corporate Productivity — Aircraft Maintenance	32-21
Devolution of budgetary control has been a mixed success	32-22
Determining cost savings remains a problem	32-22
Implementation of maintenance quality system was delayed	32-22
Efforts to train aircraft maintenance technicians for multiple skills failed	32-22
Base/Wing Supply	32-23
Performance information remains limited	32-23
Massive organizational, operational and process changes have occurred	32-24
Base/Wing Commercial Vehicle Maintenance	32-24
Information on productivity and warranty use is unknown	32-25
Progress has been made in the vehicle disposal process	32-25

Page

Base/Wing Transportation 32-26
Availability of performance information has improved significantly 32-26
Gaining full benefit from the new system will require further effort 32-27
The change in productivity of base/wing transportation operations is unknown 32-27

Information to Parliament 32-28
There are two main reports to Parliament 32-28
There is still no performance measurement system in place 32-28

Limited Progress in Renewal Efforts 32-28

Conclusion 32-32

About the Audit 32-33

Exhibits

32.1 Canadian Forces Bases and Wings 32-8
32.2 A Chronology of the Evolution of Activity-Based Costing Initiatives 32-11
32.3 Training Days Delivered Per School Employee 32-19
32.4 Operational and Process Changes in Base/Wing Supply Organizations 32-25
32.5 Institutional Reform Model 32-29
32.6 Analysis of Lack of Progress in Implementing 1996 Recommendations 32-30

Appendix

Departmental Progress Made Against 1996 Recommendations of the Auditor General 32-35

National Defence

Defence Support Productivity: A Progress Report

Main Points

32.1 National Defence's efforts since 1994 to transform itself to a more entrepreneurial organization and to maintain military capabilities in the face of declining financial and human resources have yet to be completed. Efforts to reform the services we examined in 1996 that provide support to the ships, land force brigades and air squadrons of the Canadian Forces remain a work-in-progress.

32.2 In 1996 we reported that the productivity of the base/wing support functions of vehicle maintenance, supply and transportation had either fallen or was less than that of similar service providers. This year we found that, because of massive organizational and process changes, we could no longer measure productivity; nor could the base/wing managers tell us if they were more or less productive than they were in 1996.

32.3 Although the number of training days delivered per Canadian Forces school employee has declined since 1996, 14 schools may be unable to deliver the quantity of individual training required in the future.

32.4 National Defence's efforts to improve aircraft maintenance productivity have been relatively successful, although the introduction of AF 9000 Plus, a quality management system, has stalled.

32.5 The Department has achieved limited success in its efforts to shift to a more businesslike environment in those renewal efforts we examined.

- Business plans, although helpful in rationing declining resources, still lack performance measures. Managers continue to express concerns about the adequacy of cost information. As a result, it is difficult for managers to determine whether productivity is improving or declining.
- The devolution of operating budgets to the lowest level of the organization has led to confusion over roles and responsibilities. Managers do not have the knowledge and experience to carry out their new responsibilities. The Department has not provided adequate training on new information systems, and the complexity of the systems has complicated rather than simplified re-engineering and devolution initiatives. The Department has undertaken a number of initiatives to address these issues.
- The Department's efforts to transform its organizational culture continue; however, culture change priorities have yet to be identified.
- As might be expected, the two major alternative service delivery programs most closely associated with defence support productivity are meeting strong internal resistance from potentially affected employees. The Department expects to realize savings beginning in 2004.

32.6 We found that the lack of measurable progress in improving support productivity can be attributed to a number of factors, including:

- the relatively low priority of improving defence support productivity among the Department's competing programs;
- the need to cope with continuing personnel and budget reductions throughout the renewal period; and
- the lack of a strategic plan to guide the Department's reform efforts through its five-year renewal period (1994–1999).

Background and other observations

32.7 The operational ships, land force brigades and air squadrons are sustained by a support system that provides such things as personnel administration, food, fuel, equipment, maintenance and training. In a force of about 60,000, approximately 36,000 are dedicated to operations and training at any given time, with the remainder focussed mainly on continuing support. In dollar terms, support services consume approximately 45 percent of the $11 billion budget of National Defence. In this audit, we reviewed the progress made by the Department in improving productivity in support functions that we audited in 1996. These functions represent only part of the resources consumed by support services. Measuring and improving defence support productivity is important to ensure that only minimal resources are consumed by support functions so that maximum resources can be dedicated to operations.

32.8 In 1994, in response to the government's 1994 Defence White Paper, National Defence embarked on a five-year renewal program to devote maximum resources to the Canadian Force's combat capability by decreasing the cost of support activities. Between 1994 and 1999, the Canadian Forces were reduced from 76,000 to about 60,000 members. The civilian work force was reduced from 32,000 to about 20,000 employees. During this period of rapid personnel reductions, National Defence completed a number of significant overseas and domestic deployments.

The National Defence response is included in this chapter (paragraph 32.126). The Department stresses that it has faced many challenges and competing priorities that have reduced its ability to improve support productivity. Officials told us that business planning has resulted in greater awareness of the need for efficiency and that their Strategy for 2020 document will provide an overall framework for change.

National Defence acknowledges that the development of activity-based costing information has been slow, but says that its decision-making process has not suffered. The Department is still working on a performance measurement framework.

Introduction

Findings of the 1996 Defence support productivity audit

32.9 The operational ships, land force brigades and air squadrons of the Canadian Forces are sustained by a national support system that provides personnel support, equipment, food, fuel, maintenance and training. The overall support system consists of a number of systems and processes such as procurement, supply, maintenance, finance and transportation. These support services are delivered in part through the 23 Canadian Forces bases and wings where operational units are stationed, and through national and formation headquarters that provide general management of the individual support functions (see Exhibit 32.1).

32.10 In November 1996, we reported on the general state of the productivity of Defence support. We defined productivity as the rate at which resources are used to produce or deliver a given quantity and quality of products. The more productive a support operation is, the fewer the resources it will consume to provide the same quantity of output; and hence, the more resources can be devoted to combat and combat service support units. We concluded:

- National Defence had begun its management renewal process but had by necessity been forced to concentrate its efforts on implementing personnel and budget cuts mandated in the 1995 and 1996 federal budgets.

- Major re-engineering initiatives appeared to be on track, but were only then entering the implementation stage and were therefore difficult to assess.

- Business planning and operating budgets were only slowly coming into effect and would likely take additional time to affect management behaviour.

- Senior management had identified the need to change values and beliefs from a focus on following bureaucratic rules to one of independent initiative and cost consciousness.

- Employee surveys done by the Department had indicated that a great gap existed between the current culture and the one required if the Department was to benefit from business planning and the use of operating budgets.

- The Department's productivity, where it could be compared with outside providers, was lower because budget cuts and downsizing had reduced the need for support services faster than the Department had reduced the number of staff providing these services.

- Management lacked the information to detect decreases in productivity and was often constrained in its ability to act; it lacked incentives and had been preoccupied with implementing budget reductions.

- The Department had built its renewal strategy around freeing up middle management and encouraging initiatives that would improve productivity; chief among these were the introduction of business planning and operating budgets.

- At the time of our 1996 audit, which was after the introduction of business planning and operating budgets, it was evident that managers still lacked cost and performance data to make business cases for change.

In 1996 we reported that Defence support productivity was falling in those areas we examined, despite departmental initiatives.

Focus of the audit

32.11 The objectives of this audit were to report to Parliament on whether recommendations and observations raised in the 1996 Report had been addressed by National Defence; to determine whether management action taken would likely correct the deficiencies; to re-audit support productivity in the areas of individual training, base commercial vehicle maintenance and base

Exhibit 32.1

Canadian Forces
Bases and Wings



The operational units of the Canadian Forces, including the personnel, ships, army equipment and aircraft fleets, are located across the country. The personnel on the bases and wings provide support services to the operational units. Such support services include the maintenance of equipment, the provision of supplies, transportation of personnel and cargo and numerous other services to ensure that operational units are prepared for duty. We audited the 23 bases and wings identified in the exhibit.

* 5th Area Support Group includes Canadian Forces Base/Area Support Unit (ASU) Valcartier, ASU St-Jean, ASU Montreal.

transportation and report to Parliament on the changes; and to determine the reasons for delays in implementing the 1996 recommendations to improve defence support productivity. The Appendix provides an overview of the progress made with respect to each recommendation.

32.12 At the strategic level, we reviewed business plans, operating budgets, culture, and the change co-ordination function. Each of these areas had been selected for audit in 1996 because of their significance to the Department's five-year renewal program. For this audit, we added two projects from the Department's alternative service delivery program that had just begun at the time of completing our 1996 audit. At the corporate level, as in 1996, we looked at individual training and aircraft maintenance, each of which had been chosen because of their high cost. Finally, we reviewed the same support services delivered at bases and wings, namely the base maintenance, supply and transportation functions. As in 1996, these services were chosen because of their importance and the significant number of support personnel involved in their delivery. Further details on the audit are in **About the Audit** at the end of the chapter.

Observations and Recommendations

Business Planning

32.13 A key part of the Department's reform strategy was to delegate objectives and resources to each level of management and charge local managers with improving efficiency in their individual areas of responsibility. Business planning has been the key tool to accomplish goal setting and delegation.

32.14 National Defence defines business planning as an accountability-based process that links the Department's program sub-activities to performance through the establishment of a contract between superior and subordinate commands. The contract identifies the tasks or functions to be performed, the resources assigned and the expected results.

32.15 In 1996, the business planning process, for the most part, extended only to the top level of the Department — the Navy, Army, Air Force and Headquarters groups. Since that time, the Department has extended the process to subordinate commands and bases/wings. In 1996 we observed that although activities and objectives had been defined, the top-level plans did not include cost and performance data, thereby limiting the usefulness of the plans as tools to improve productivity. During the current audit, we still found that business plans at the base and wing levels lacked the cost and performance data necessary to serve as tools to improve productivity.

32.16 The Department has continued to face budget reductions throughout the period 1996 to 1999. Because of this, business planning has become more a process through which all levels of the Department decide what activities can't be carried out to support operational capabilities from the resources allocated. In general, the business planning process rationalizes the elimination or reduction of activities that have the least impact on the delivery of those capabilities called for in the 1994 Defence White Paper.

Resource reductions have focussed business planning more on rationalization of activities than on improvement of productivity.

Cost information is still lacking

32.17 To maximize productivity, resource managers at the base and wing level need sufficient detailed cost information. This enables them to make businesslike decisions to ensure that resources are used in the most cost-effective manner. We noted several concerns with the tools and training in this area.

32.18 We surveyed all 23 commanders of bases and wings. Of the 21 who responded to our business planning information request, 16 believed they could project impacts on resources and deliverables in a timely manner using the tools they had available. Nevertheless, most expressed concerns about either a lack of appropriate costing tools or a lack of training on costing tools, or both. Specifically, base and wing commanders expressed concerns about such tools as activity-based costing (ABC), the Air Force's Cost Centre Management (CCM) tool, and the current limitations of the Department's principal financial accounting system, the Financial and Managerial Accounting System (FMAS). Four of the base/wing commanders identified problems with manpower shortages, two identified problems with staff turnover, and three were concerned about the reduction in rank of those personnel occupying supervisory positions in the resource management function.

32.19 The majority of base and wing commanders responded positively when asked if linkages were sufficient through current costing capabilities to project impacts on resources and deliverables. Thus, we believe that National Defence has established an adequate foundation for the costing function. However, based on the concerns expressed by these same base and wing commanders, more remains to be done.

32.20 Base and wing organizations providing support services such as supply, transportation and commercial vehicle maintenance voiced similar concerns. Slightly more than half of the support service managers believed that they had the necessary cost information to ensure that the resources allocated to them were sufficient to fund the deliverables specified in their business plans. However, about 40 percent responded that their current costing capabilities were insufficient to project the impact on deliverables of reductions in resources or increases in activity rates. Similar concerns were expressed by the 31 Air Force squadrons who responded to our information request. Senior departmental officials maintain that the tools to support an adequate costing capability are available to base, wing and squadron level personnel but that not all managers are aware of this. They told us they expect their comptrollership initiative to increase managers' knowledge.

32.21 A significant number of base level officials thought better training was needed on the Department's Financial and Managerial Accounting System, the Air Force's Cost Centre Management tool and the many variants of activity-based costing used throughout the bases and wings.

32.22 We found that 22 of the 33 Air Force squadrons contacted had not fully implemented the Cost Centre Management model as a tool to support costing activities and related decision making. Air Force officials have explained that they are implementing a plan to revitalize the model.

Efforts to develop an activity-based costing capability have been delayed

32.23 The chronology of the evolution of activity-based costing, the Cost Centre Management model and the Department's Financial and Managerial Accounting System is summarized in Exhibit 32.2. The exhibit depicts the series of initiatives aimed at improving the costing capabilities of resource managers throughout the Department. Internal audit conservatively estimated that the cost of these efforts was about $11 million by the end of 1997.

32.24 Internal audit identified as a significant issue the lack of an overarching framework to guide the development of the Department's activity-based costing capability. Many organizations have invested considerable resources in developing costing tools; however, with few exceptions, progress

toward providing better cost information through the introduction of activity-based costing below the top level of management has been delayed.

32.25 The way ahead for the development and use of these tools is currently unclear. As well, many officials expressed concerns that they have neither the manpower nor the resources to keep any of these costing models up-to-date and usable.

Base/wing level staff are frustrated with the business planning process

32.26 We found that base and wing commanders and their immediate subordinates (those directly responsible for delivering such support services as supply, transportation and commercial vehicle maintenance) are frustrated with the business planning process and resulting plans.

32.27 Six of the 21 base and wing commanders we contacted expressed frustration with the lack of funding accompanying the devolution of activities within the Department. The Air Force headquarters responsible for reviewing all wing level business plans states that the plans are replete with examples of activities being "dumped and/or devolved." This appears to have happened with limited stakeholder participation and little or no transfer of associated funds. As a result, business planners must fund these activities from their original resource

Exhibit 32.2

A Chronology of the Evolution of Activity-Based Costing Initiatives

Costing Initiative	1992	1996	1998	2000
The Air Force launches its Cost Centre Management (CCM) tool to improve costing capability.	√			
The Navy, Army and Assistant Deputy Minister (Human Resources - Military) contribute funding to CCM development (1994-1996).		√		
The Department informs the Auditor General that activity-based costing (ABC) may be implemented Department-wide by June 1998 as a component of the Financial and Management Accounting System (FMAS).		√		
The Army, faced with looming critical cash shortfall, chooses a process-oriented approach and invests in a network version of ABC.		√		
Environments and Groups concurrently develop ABC models (1996-1998) while attempting to minimize the risk of proceeding in a direction not aligned with the Department-wide FMAS solution.			√	
The FMAS is implemented Department-wide without ABC.			√	
Environments and Groups continue to develop ABC models but find new data sources such as FMAS and PeopleSoft have yet to be stabilized.			√	√
The Department informs the Auditor General that ABC at the national level will not be implemented prior to the successful implementation of accrual accounting.				√
The Air Force informs the Auditor General that it anticipates completing the implementation of CCM at the operational and strategic levels over the next two years.				√
The Department informs the Auditor General that clearer direction on the national level ABC initiative will be given about mid-July 2000.				√

allocations, which have been significantly reduced over the last few years. A level of frustration is not surprising given that devolution was taking place simultaneously with budget reductions.

32.28 Aside from the frustration with the lack of training and tools, the responses we received from the base and wing level indicate that the business planning process is seen as a paper exercise and not as a usable management tool. However, participants do see the process as useful in allowing them to play a role in the allocation of resources. Most said that wide participation increases the visibility of resources and activities at all levels within the base and wing organizations and allows them to set priorities.

Few supply, transportation and maintenance support organizations at the base and wing level have developed performance measures in the last four years.

Status of performance measurement

32.29 The Navy, Army, Air Force, Assistant Deputy Minister (Human Resources – Military) and the Assistant Deputy Minister (Materiel) cumulatively spend approximately 75 percent of the funding allocated to National Defence. These organizations differ in their mandate, organizational structure, operations and support services provided to operations.

32.30 In 1996 we examined three common support services delivered by support sections at the base and wing level to the Navy, Army and Air Force — namely, supply, transportation and commercial vehicle maintenance services. This year we found that the organizations delivering these services have undergone significant change. Although they are working on performance measurement systems, very few are actually using performance information as part of a performance management system to improve support productivity.

32.31 What is clear is that business plans at the base and wing level do not integrate performance information from prior years to identify targets for improvements to the productivity of support operations.

Operating Budgets

What is an operating budget?

32.32 National Defence defines operating budgets as those dollars devolved directly to the Environmental Chiefs of Staff and other level one managers within the Department. Operating budgets primarily consist of funding for operations and maintenance, civilian salaries, and minor capital items. They are devolved to each level of the organization from Headquarters down to the base/wing and unit/squadron levels. The intent behind operating budgets is to allow local managers, particularly at the base/wing and unit/squadron levels, to make their operations more efficient by making their own spending choices among minor capital items, personnel and operational activity while delivering on the commitments in their business plans.

32.33 In our 1996 audit, we concluded that operating budgets were indeed a useful tool but that their full utility had not yet been realized at the local level. Furthermore, managers should know how to use them and should be provided with the incentive to do so.

Impact of the devolution of operating budgets

32.34 The devolution of operating budgets to the lowest levels of the organization has resulted in a significant number of problems. While departmental officials informed us that they were aware of some of these consequences earlier, an internal audit published in September 1999 highlighted four critical problem areas: roles and responsibilities, training, communication and complexity of the new information systems.

32.35 The audit indicated that the devolution of operating budgets, many aspects of procurement, human resource management and other functions had led

to considerable confusion about the roles and responsibilities of local resource managers. Many resource and business managers did not have the knowledge and experience they needed to do their work; and without a co-ordinated training strategy, the benefits from business planning may not be realized. Because re-engineering, devolution and downsizing had fundamentally changed relationships, roles and responsibilities, central functional staff could not effectively communicate policy and procedures to resource managers in a timely way. In addition, the complexity of the new information systems had complicated, rather than simplified, their work. To address these issues, the Department has developed and issued new financial direction and policy, financial and materiel management guides for resource managers, and specialized training courses, all of which identify roles and responsibilities for both resource and financial managers.

32.36 Our audit work confirmed the internal findings. Of the 22 base and wing commanders who responded to our information request on operating budgets, 12 said that the training their staff received on operating budgets was inadequate, and 14 expressed concerns about operating budgets and information systems. Nine commanders felt there were problems with roles and responsibilities, including not having enough staff, and seven described lack of skills as a problem.

Efforts to address problems associated with devolution of operating budgets

32.37 As one of the pilot departments for Treasury Board's Modernization of Comptrollership initiative, National Defence conducted a Capacity Check in the fall of 1999. The Capacity Check consisted of a departmental self-assessment that identified 13 areas of opportunity for improvement. As part of its action plan to advance modern management, the Department has identified three primary thrusts that will address the 13 areas; these are the Integrated Defence Management Framework, the Integrated Information Environment and the Department's Financial Information Strategy (FIS).

32.38 Departmental officials explained that this action plan, Toward a Modern Management Agenda, will address a range of problems associated with the devolution of operating budgets. These include breakdowns in internal control processes, basic departmental practices and the functional support chains.

32.39 According to officials, the action plan will be published later this year and is scheduled to be implemented over the five-year period 2000–2005. Given the size and complexity of National Defence and the Canadian Forces, the level of effort required to fully implement this action plan will be enormous.

Culture Change

Efforts to reform culture lack a blueprint for change

32.40 In 1996 we reported that the change in values and beliefs held by departmental staff had just begun and that changing culture would likely be a long and difficult process. Departmental officials believed that a change in culture would be required to move from a centralized, hierarchical and risk-adverse environment to one that would be decentralized, and where resource custodians would become resource managers.

32.41 Efforts to bring about this culture change have fallen short. The Department has published Strategy 2020, which articulates both long-term objectives and short-term targets that should facilitate the identification of culture change priorities. However, the Department has not yet established a clear blueprint to move the organization's culture in the desired direction. Instead, it has chosen an

indirect approach, relying on the introduction of new management systems such as business planning to bring about the desired change. Further, we noted that the Defence Management Committee has given the Environmental Chiefs of Staff and Group Principals the responsibility of leading the culture change without first establishing clear priorities. We do not believe that the Department's approach will be sufficient to bring about the desired culture change.

32.42 In 1996 we recommended that National Defence continue to monitor the employee beliefs and values on which its new management system would depend. In response, the Department conducted a cultural survey in 1999, the results of which were compared with two similar surveys done in the mid-nineties. We assessed the reasonableness of the survey methodology but did not audit the reliability and validity of the survey results.

The Department said that a change in culture was the key to improving productivity but did not develop an overall plan.

32.43 The respondents to the 1999 survey expressed significantly more positive views on new practices, openness to workplace innovation, optimum contribution of personnel, wise use of resources, teamwork and integration, general management climate, and renewal and change. In contrast, respondents expressed significantly more negative views on planning procedures, media reports, personal and public perceptions, stress, organizational support and downsizing.

32.44 National Defence employees also participated in the Public Service Employee Survey that the Treasury Board conducted in 1999. The survey results indicated few differences between National Defence employees and the rest of the federal public service. However, on the positive side, National Defence employees rated themselves higher in their likelihood to take initiative in the workplace. On the negative side, more Defence employees than public service employees believed that organizational instability caused the quality of their work to suffer.

32.45 The 1999 internal survey suggests some positive change in the workplace culture; however, with a lack of priorities, it is difficult to assess if these changes were the most critical. Officials in the newly created Directorate of Strategic Change, whose mandate we explain in paragraph 32.50, have an action plan to improve the workplace culture. Some elements of the action plan involve defining culture change priorities, identifying the gap between the current and desired culture, and implementing initiatives to address this gap. An implementation schedule for the action plan was not available.

Co-ordination of Change

32.46 In 1996, National Defence was entering the second year of its five-year renewal program. It was still in the relatively early stages of major change, which was intended to take place during the period 1994 to 1999. The Department claimed that positive results from the monumental re-engineering and restructuring were only beginning to be realized. By January 1995, the Department had decided to adopt a single co-ordinator for the massive re-engineering efforts under way — the Management Command and Control Re-engineering Team (MCCRT). This team consisted of 110 employees devoted to re-engineering activities in all major sectors of the Department. The team ceased its 30-month effort in June 1997.

32.47 In our 1996 audit, we recommended that National Defence ensure that it maintain a centre for the co-ordination of change, to track the activities of major initiatives, address common problem areas and report to senior management. The Department accepted our recommendation but replied that it did not intend to create or promote centralized control of change initiatives. It

believed that this work was the responsibility of those in the chain of command. The Department rejected central co-ordination of renewal programs, and it did not follow up on individual efforts for several years.

32.48 We found that the mandate to co-ordinate, track and report to senior management on the major change initiatives under way at that time was never fulfilled. Although the Defence Management Committee gave the Chief of Management Renewal Services the mandate to co-ordinate change initiatives that crossed organizational boundaries, this organization was itself reorganized. In addition, the Director General of Management Renewal Services quickly became fully occupied with the Alternative Service Delivery program and did not co-ordinate the major renewal initiatives. Departmental officials informed us that in March 1999 the Directorate of Strategic Change was created as the centre for co-ordinating change within the Department. They claim that the Directorate is taking a decentralized approach to co-ordination where the chain of command and the operators are key to the success of implementing the change initiatives. In addition, the Directorate will assist the chain of command in implementing the initiatives by playing the role of catalyst, change integrator and change co-ordinator among the various organizations.

32.49 Defence officials further informed us that some time prior to the formation of the Directorate of Strategic Change, the Department had turned to business plans as a means of tracking and monitoring significant issues. In 1998, internal audit reviewed all business plans to determine how well they were addressing change. The review found that business planning had not matured enough to capture all cross-functional issues and that it was not successful in tracking change initiatives.

32.50 In its role as co-ordinator of change initiatives within the Department, the Directorate of Strategic Change is to:

- develop the strategy and lead the implementation of major departmental change initiatives;
- develop a continuous improvement plan for National Defence;
- co-ordinate the implementation of the Integrated Defence Management System initiative;
- promote the integration of the modern management agenda, including modern comptrollership concepts, into National Defence by establishing a centre of excellence for change to help the Department adopt more progressive management practices; and
- promote alternative service delivery to provide more cost-effective delivery of non-core activities and provide associated policies, procedures and support.

32.51 We also reviewed an internal audit report published by the Department in May 1999 entitled NDHQ 99: Review of Restructuring and Re-engineering. This review evolved from concerns that change efforts in National Defence Headquarters would lose momentum unless some form of measurement was put in place, especially after the MCCRT was discontinued. The report concludes, "re-engineering has taken place, to varying degrees, within virtually all NDHQ processes, although many of those interviewed believe that more needs to be done in the personnel and materiel fields. There is a also a general belief that re-engineering that crosses organizational boundaries has been limited…and that the centre does not have a corporate view of the extent and progress of re-engineering and its impact on outputs and people."

32.52 Departmental officials told us that it is now too late to monitor MCCRT initiatives in a useful manner. However, they intend to track future significant change initiatives through business

planning, performance measurement mechanisms and the new Directorate of Strategic Change. They further state that several MCCRT initiatives were monitored, particularly Headquarters personnel reductions and the initiative to rationalize Headquarters accommodations.

32.53 We remain concerned about the management of change within National Defence for several reasons. First, we noted that the Department lacked an overall change management strategy from the time of our last audit in 1996 until 1999. For much of this period, there was no staff centre responsible for overall co-ordination of change management. However, beginning in 1999, senior departmental planning guidance has identified a number of change objectives that, taken together, appear to address the management of change through the business planning process.

32.54 Second, we noted a deep sense of frustration and what might be termed "change fatigue" on behalf of many of the military and civilian staff we interviewed. Although many said that fewer renewal projects were under way than in recent years, they expressed the concern that they no longer had the time or staff to deal with managerial issues such as increasing support productivity. The institutional change model described later in this chapter suggests that confusion, fatigue and counter-productivity are normal during a period of monumental change. Accordingly, the concerns about staffing shortages expressed are understandable, given that the Department reduced Headquarters personnel by over one third.

Alternative Service Delivery

Two major alternative service delivery projects are expected to deliver savings beginning in 2004

32.55 We reported on the Alternative Service Delivery (ASD) program at National Defence in November 1999. At that time, we concluded that the program had resulted in some limited success, although we were unable to verify the savings claimed by the Department. Of the Department's 16 currently active ASD projects, 2 have large potential savings and are closely connected to the delivery of defence support services.

32.56 The first, the Supply Chain Project, originated in late 1997. The mandate of this project is to review all supply and distribution functions in National Defence, end to end, from suppliers in industry to the soldiers in the field. According to the June 1999 business case analysis, which we did not audit, the annual forecast cost of that portion of the supply chain targeted for contracting out is $366 million. The Department is currently selecting a contractor. Once the selection is made, National Defence plans to work collaboratively with the contractor to jointly define the contract requirements. Collaborative work may take up to one year, whereupon the final value proposition, including estimates of final savings, will be tabled for the government's consideration.

32.57 A May 2000 internal briefing to departmental senior management by the Supply Chain Project staff identifies cumulative savings of $569 million over a 10-year period. The costing model indicates transition costs of $70 million over the first three years, with actual savings forecast to begin in the fourth year. The tentative schedule for implementation, when the selected contractor assumes the role of contracted service provider, is some time in 2001.

32.58 During our audit, we noted strong internal resistance to the Supply Chain Project. As might be expected, both military and civilian staff are concerned that despite all the effort made to improve base/wing supply productivity, their jobs may be lost or the nature of their work may significantly change.

32.59 The second major alternative service delivery project with large

potential savings is the Site Support Services Project, which also had its origin in 1997. This project has expanded from its six original Army sites to at least 19 locations. Site services include such functions as realty management, technical services, support to operations, administration, finance and comptrollership. The departmental management framework for conducting site reviews of these services was issued in June 2000. The Environmental Chiefs of Staff and Group Principals will be responsible for performing the individual site reviews, including the development of business case analyses and the conduct of competition with private sector bidders, if that option is chosen. The Department has directed that all site support service reviews be completed by 31 March 2004.

32.60 Both of these projects were initially to have been completed by the end of 1999. Officials explained that in the case of the Supply Chain Project, the original milestones were only a rough estimate that has since been revised. In the case of the Site Support Services Project, delays have been encountered for a number of reasons. Foremost has been the necessity to revise the competitive tendering process to account for the decision to allow in-house organizations the following opportunities: first, to meet alternative service delivery review objectives, and second, to develop a set of Canadian Forces common service standards to ensure national consistency in the level of support services under review. The Environmental Chiefs of Staff and Group Principals are scheduled to provide the Vice Chief of the Defence Staff with their plans for conducting the site service reviews in the fall of 2000.

32.61 In 1996 we examined support functions that bases and wings provided and also two large corporately driven support functions — individual training and aircraft maintenance. We chose these functions in 1996 because of the significant resources devoted to each; this is still the case, and we discuss our review of each function here.

Corporate Productivity — Individual Training

National Defence has a large training system

32.62 Individual training is provided by the Canadian Forces to ensure that its personnel acquire necessary military and technical knowledge and skills. A 1998 review conducted for the Department estimated that individual training and education cost about $2 billion a year. This estimate included costs for personnel, students, operations and maintenance, capital and support. Personnel accounted for 24 percent ($479.7 million) of the estimate. We therefore consider that the productivity measure we established in 1996, training days per school employee, is both relevant and significant in terms of cost. It is not, however, a complete or comprehensive measure since personnel costs are only a portion of training resource inputs.

Two major alternative service delivery projects related to support productivity are expected to deliver savings beginning in 2004.

32.63 At the time of this audit, the Department had 51 schools that provided individual training. During the 1996 audit, we examined 47 schools to determine how productivity had changed since 1990-91. To continue the trend analysis, our current audit reports on 37 schools; due to amalgamations and divisions of schools, these represent 43 of the 47 schools examined in 1996.

32.64 The schools we audited currently employ more than 4,800 people and produce about 1,000,000 training days annually. These schools vary greatly in physical size and each employs anywhere from about 10 to 300 employees. Responsibility for individual training has been devolved from a central staff unit to four managing authorities: one for each of the environments — Land, Sea and Air,

and a departmental authority who is also the managing authority for any training that spans two or more environments.

Performance measures have not been implemented

32.65 No one performance measurement system is being used consistently across Forces schools to measure productivity in individual training. The Department has suggested comparing Canadian military schools with those of other countries; however, it does not currently do this and therefore no data were available. Although individual managing authorities have identified various performance measures, half of the schools we audited responded that they do not measure productivity; the remaining schools use various measures that cannot be summed up to obtain a system view. The departmental authority for individual training, in conjunction with the managing authorities, has developed a national verification system that provides performance measures and indicators; however, it is still in its early stages of implementation. The measure we have therefore used to assess productivity, although not comprehensive, is the only one for which data were available and also covers a material aspect of individual training.

Labour productivity in schools appears to have decreased

32.66 In our 1996 audit, we compared the number of staff with the number of training days delivered by the Canadian Forces and National Defence schools. We reported that labour productivity in the schools had decreased by 40 percent since 1990-91. This appeared to have occurred because the Canadian Forces had been downsized, but the schools had not reduced their staff proportionately. In our 2000 audit, we found that labour productivity had decreased a further seven percent since our 1996 audit, when compared with the 1990-91 baseline. Since 1994-95, a decrease in labour productivity has occurred in 21 of the 37 schools and across all four managing authorities.

32.67 Exhibit 32.3 illustrates the total reduction in labour productivity that has occurred in the 37 schools. The 1990-91

Labour productivity in the Canadian Forces schools has decreased a further seven percent since our 1996 audit.



Labour productivity in Canadian Forces schools continues to decline (see paragraph 32.66).

and 1994-95 fiscal years are used as baselines, as these are the first and last years used in the analysis for the 1996 audit.

32.68 In 14 of the 37 schools, there has been a steady decline in labour productivity since 1990-91. Only two schools have steadily increased labour productivity. An additional 14 schools show a decline in productivity between 1990-91 and 1994-95, but have since increased their labour productivity levels — four of these to above their respective 1990-91 levels. The remaining seven schools increased productivity between 1990-91 and 1994-95, but have since dropped below their 1990-91 levels. According to departmental officials, our analysis suggests that the effects of downsizing, and in particular the Force Reduction Program, continue to affect school labour productivity. Our analysis also indicates that there have been difficulties in forecasting changes to staffing requirements.

Forecasting production requirements has presented a challenge

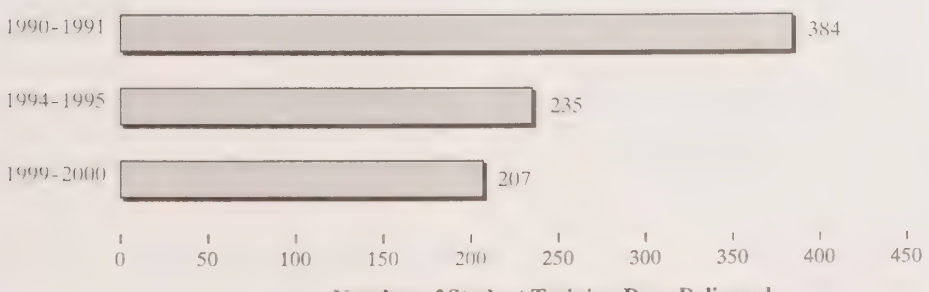
32.69 Departmental officials told us that the size of the Canadian Forces training establishments is based on the Canadian Forces production requirements. An individual training production requirement is the number of graduates required to address an operational or departmental need. The Canadian Forces have had significant difficulties in establishing production requirements; however, departmental officials believe that modelling and review procedures recently put in place should enhance forecasting of production requirements in the future.

32.70 Although the number of training days delivered per Canadian Forces school employee has declined since 1996, 14 schools may be unable to deliver the quantity of individual training required in the future. The main reason identified for these difficulties is lack of staff, particularly qualified instructors. It is clear that personnel reductions have seldom been made in the appropriate places and not many staff levels have been adjusted to meet actual needs. Some schools are now already overburdened and unable to meet requirements, while others anticipate problems meeting expected increases in requirements. This is especially a problem in basic training. It appears that staff reductions were made based on the requirements at the time of the downsizing, when there was little training taking place. Now that training requirements are increasing for many of the schools, the Department needs to review staffing levels at all schools and adjust them to meet these new needs.

32.71 When it was implemented, the business planning process required training establishments to forecast their budgetary requirements prior to the training demand being established. As a

Exhibit 32.3

Training Days Delivered Per School Employee



Source: Office of the Auditor General survey data

result, individual training was scheduled and conducted to meet as much of the demand as possible within the allocated budget that was established in the prior year. In recent years, the result has been an unforecasted demand much greater than the allocated budget. It is therefore difficult to ensure that the appropriate level of resources, including staff, is in place to deliver the required quantity of training. The Department has developed a draft business process model to address this problem, but has yet to implement it due to a lack of both information technology support and stakeholder input.

Strategic guidance to training staff has been weak

32.72 The first edition of the Strategic Human Resource Planning Guidance (SHRPG) was distributed in the fall of 1997 to supplement the departmental senior strategic guidance for 1998. It stated that specific human resource guidance is essential to fully develop the human resource portion of the business plan. Despite this statement, the SHRPG for 1999 was released only in draft form and the 2000 version was not distributed until January 2000, which is after business plans were to have been submitted. The 2001 document was released in June 2000, despite the statement in the 2001 departmental senior strategic guidance that the SHRPG would be published in April each year. These delays mean that business planners do not have timely access to training priorities and change restrictions, which the human resource guidance is intended to provide.

32.73 New Defence Administrative Orders and Directives were to be released in the summer of 2000 to replace the 1994 Instruction on Individual Training and Professional Development (IT/PD) Management Framework, which is the current directive for individual training. However, there are now delays due to changes in the military staff members responsible for this policy. The Department hired a contractor for nine months beginning in June 2000 to set up a co-ordination cell responsible for facilitating future production of the Defence Administrative Orders and Directives.

32.74 Continuity in leadership, especially in the position of the departmental authority, has been a problem. There have been four incumbents in this position since 1996. Continuity in strategic leadership is essential during times of change.

The goal for validation of individual training has yet to be met

32.75 Validation is the process of confirming that the appropriate training is being delivered. It prevents over or undertraining by surveying graduates of the various courses and their supervisors to determine whether the training was required and is being used. The national verification system and the Strategic Human Resource Planning Guidance identify a goal of validating approximately 20 percent of active courses per year, resulting in all courses being evaluated over a five-year period. To date, this goal has not been met.

Problems with the training management system exist

32.76 The Individual Training Management Information System (ITMIS) was designed to be a demand-driven system. In theory, courses should not be scheduled until a training requirement and student availability have been established. Yet most of the Canadian Forces schools we surveyed have cancelled scheduled courses due to a shortage of either students or staff.

32.77 The in-service Defence Human Resources Management System (HRMS), based on a PeopleSoft product, is

scheduled to replace ITMIS in 2002. A gap analysis between the requirements of the Canadian Forces Individual Training and Education System (CFITES) and what HRMS could provide was completed in February 2000. The report concluded that given the size of the gap and the number of important unresolved issues, successful implementation of HRMS support for individual training and education could present significant challenges, including meeting the project schedule and cost and dealing with product constraints. Managing authorities are concerned that, without significant further development, the proposed system will not be able to provide as much management support as the ITMIS currently does.

32.78 The original lack of acceptance of ITMIS, the considerable costs of its implementation, and the inability to use some of the planned features have created problems. Unless the concerns of managing authorities are addressed, similar problems appear likely with the transition to the HRMS. As well, funding for improvements and training on the ITMIS have been reduced due to the upcoming change of systems, even though this change is not scheduled to take place for another two years.

Costing of individual training is inconsistent

32.79 Although the Individual Training Management Information System was designed with a limited costing feature, it is not being used. Schools use different models, which include military staff, infrastructure and base support costs to varying degrees. This leads to difficulties in establishing the exact cost of individual training in the Canadian Forces. Although a new position has recently been created to review the costing of individual training, it is impossible at this time to determine on a system-wide basis whether this training is being conducted in a cost-efficient manner.

Corporate Productivity — Aircraft Maintenance

32.80 During 1999-2000, National Defence spent about $428 million on maintaining its fleets of aircraft. Aircraft maintenance is conducted in part by industry and in part by the some 4,700 National Defence employees who work in this area. Our audit addressed the maintenance services provided directly by National Defence employees in the aircraft maintenance units located on the wings.

32.81 In 1996 we audited aircraft maintenance and found that productivity was improving. Specifically, we found that the Air Maintenance Squadron at Cold Lake, Alberta, which services CF-18 Fighter aircraft, had carried out a number of initiatives that had improved productivity. However, we also found that costing data to manage the maintenance support functions were not sufficient to aid responsibility centre managers in making well-informed cost/benefit judgments.

32.82 During our most recent audit, we wanted to determine the extent to which the lessons learned at Cold Lake had been disseminated across the Air Force. We wanted to re-evaluate the success of some of the improvements identified in our 1996 chapter and to determine whether the availability of adequate cost information had improved.

32.83 The lessons learned from Cold Lake that we followed up in this audit related to the reduction of the number of approvals in the maintenance processes, the devolution of budget control to responsibility centre managers and the introduction of AF 9000 Plus, a quality management system initiative.

32.84 We found that all 33 squadrons had received guidance from their headquarters to reduce the number of approvals required in the maintenance processes and all but three had complied.

A key initiative to train maintenance staff in multiple skills needs to be amended.

Devolution of budgetary control has been a mixed success

32.85 The principle behind devolving budgetary control was to give managers more resource flexibility to meet their priorities and objectives. In 1996, we reported that this process provided the incentive to responsibility centre managers to spend less, thereby allowing the proceeds from underutilized budgets to be spent on buying small pieces of equipment to improve the work. In this audit, we found that 28 of 33 squadrons had received devolved budgetary control. However, 10 of the 28 felt they had not benefited by having control over their budget; 7 of 10 stated that they were not able to use the money they had saved.

Determining cost savings remains a problem

32.86 When asked about specific cost savings initiatives, 24 of 33 squadrons indicated that they had been encouraged to adopt such initiatives. However, of this number, only five squadrons were able to provide estimates of cost savings — between $8,000 and $500,000. The remainder of the squadrons did not estimate the cost savings.

Implementation of maintenance quality system was delayed

32.87 The final lesson learned from Cold Lake that we felt worthy of dissemination across the Air Force involved the adoption of a quality management system. Since our 1996 audit, the Air Force has introduced AF 9000 Plus, a quality management system that follows the ISO 9001 standard and adds unique Air Force requirements. The Air Force has accepted AF 9000 Plus as a standard for implementation in all areas of engineering and maintenance. Although 48 organizations within National Defence, including squadrons and Headquarters directorates, have set dates for achieving AF 9000 Plus registration, only one squadron has achieved registered status. Planned registration dates for most organizations continue to be deferred.

Efforts to train aircraft maintenance technicians for multiple skills failed

32.88 One of the success stories we reported in 1996, the reduction of the



Efforts to improve aircraft maintenance productivity have been relatively successful (see paragraphs 32.84-86).

number of aircraft technicians occupations from 12 to 3, has turned out to be problematic. The intent behind the reduction in occupations was in part to meet personnel reductions and in part to increase productivity by "multi-skilling" aircraft technicians. The theory was that fewer people with more skills could thereby be employed.

32.89 However, the attempt to multi-skill technicians has encountered major setbacks in one of the three aircraft maintenance technician occupations. Some groups of technicians lacked the background and basic skills required. Ground staff told us that they were still relying on old qualifications to ensure that staff were adequately trained to repair aircraft. One of the three occupations is particularly problematic; the training for technicians is not sufficient to give them an acceptable level of understanding of all aspects of their new trade, including electrical theory, schematic reading and weapons safety procedures. Essentially, the occupation is so broad that technicians are incapable of becoming proficient in all required areas. The Department is currently analyzing the three occupations and states that the review may result in the creation of new occupations. This may reduce the level of savings achieved by the initiative, as more specialists may be required to do the work.

Base/Wing Supply

32.90 Where we were able to make a direct comparison between personnel currently employed in base/wing supply sections and those employed in 1996, we found that staff had been reduced by 540 or 24 percent. According to the 1999 Supply Chain Project business case, the total cost of operating the static portion of the supply chain (warehousing, distribution, inventory management and receipt and dispatch) is estimated at $366 million for fiscal year 1999-2000. We found significant changes in the nature and conduct of the work now being carried out in base/wing supply sections.

32.91 When we measured labour productivity in our 1996 audit, we found that in spite of some major improvement initiatives, productivity in the base/wing supply function had declined 10 percent from 1992-93 to 1995-96. This was because the level of activity fell more rapidly than the level of supply personnel. We recommended that National Defence monitor transaction costs and volumes per employee as indicators of performance, and that such performance information be readily available to managers.

Performance information remains limited

32.92 Improvements in the availability of performance information meant to assist base/wing level staff in measuring performance remain limited. For example, only a few of the bases and wings reported that they were using performance information such as transaction costs and volume per employee.

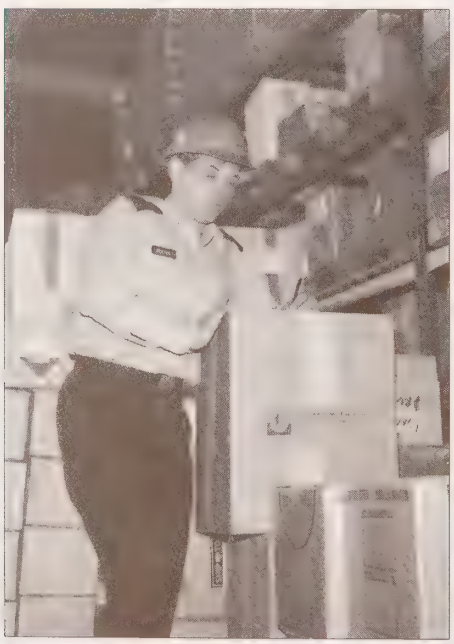
32.93 Ten of the 16 bases and wings felt they had insufficient or limited cost, performance or productivity information and one half noted specific deficiencies with the current information available. Nevertheless, 10 bases and wings reported notable improvements in the performance data available, while 6 either reported no significant improvements or did not identify any.

32.94 The most common reasons cited as impediments to the measurement and monitoring of supply productivity by base/wing supply organizations centred around four themes: lack of information systems and tools, information gathering and measurement practices that are too labour-intensive, lack of human resources needed to obtain and track information, and procedures for measuring and monitoring of productivity that are not mission-essential.

32.95 The Base Materiel Information Management System (BMIMS) was introduced over a three-year period ending in December 1999 to aid users in coping with downsizing and changes in business processes. It is serving as an interim tool pending implementation of the Canadian Forces Supply System Upgrade scheduled for the spring of 2001. While the BMIMS has some tracking capability, departmental officials state that its use as a performance measurement tool is limited.

32.96 One notable exception to the general lack of performance information within the overall supply chain is the Canadian Forces Supply Depot in Montreal (25 CFSD). Here we found that management is using performance information for management purposes. Departmental officials told us that similar performance management information is being used by the 202 Workshop, an equipment repair depot, and by the Canadian Forces Supply Depot in Edmonton.

Interim information system capabilities to measure supply management productivity remain limited.



Base/wing supply organizations do not know whether their performance has improved or declined (see paragraph 32.98).

Massive organizational, operational and process changes have occurred

32.97 The period since our previous audit in 1996 has been tumultuous for base/wing supply organizations. All 16 bases and wings who responded to our information request indicated significant changes in the structure of their supply organizations. More than half reported at least four or more significant changes. The bases and wings also reported numerous operational and process changes over the past four years. Some of these changes were made in response to budget and personnel reductions, while others were required as a result of the devolution of responsibilities previously carried out by other departmental organizations.

32.98 We found that there is a lack of clear consensus across bases and wings on whether the performance of base/wing supply has improved or declined as a result of all the recent changes. Finally, and most important, National Defence cannot measure the overall impact of all these changes on supply performance at the base/wing level. Exhibit 32.4 presents the operational and process changes that have occurred in base/wing supply organizations over the last few years.

Base/Wing Commercial Vehicle Maintenance

32.99 The light commercial vehicle fleet currently consists of about 5,100 vehicles, with a replacement value of $132 million. The base/wing vehicle maintenance sections included in our review currently employ 1,250 people.

32.100 In 1996 we audited the Department's light commercial fleet of cars and trucks and recommended that the Department review and manage the impact of its aging vehicle fleet on overall vehicle maintenance productivity. We also recommended that the Department assess the results of the vehicle disposal pilot projects under way and conduct negotiations with the Treasury Board to

reach the most cost-effective solution; this should include determining the incentives that should be built into the overall system. We further recommended that the Department maximize the use of the vehicle warranties that it had purchased.

Information on productivity and warranty use is unknown

32.101 National Defence acquired a maintenance management software program to automate a paper-based control system in land equipment maintenance organizations at Canadian Forces bases and units. Installation of this product was completed in 1999. However, as a result of the Department's implementation problems, including inadequate instruction on how to record data in the system, the Department has introduced a recovery plan. The plan indicates that the accuracy of the data on productivity and warranty use entered into the new program throughout 1999 is questionable. As of January 2000, the recovery plan was estimated to cost $650,000, which includes three full-time personnel on contract.

32.102 The information requests we sent to vehicle maintenance staff at bases and wings confirmed the implementation problems with the new software program. Only 10 of 17 bases and wings indicated that they could extract information from the program. Eight of the 10 reported various problems, including incomplete, inaccurate data that could not be used for maintenance planning or tracking warranty use. As we were unable to obtain 1999–2000 performance data on either vehicle maintenance or warranty use, we were unable to assess productivity trends since our last audit. Nevertheless, all of the bases and wings that responded to our information request stated that they encouraged warranty use when feasible.

The initial implementation of a maintenance management system for vehicles has failed to meet objectives.

Progress has been made in the vehicle disposal process

32.103 Partly as a result of a successful pilot project developed and conducted by National Defence in 1996, Public Works and Government Services Canada has issued two National Master standing offers for remarketing. These standing offers currently authorize National Defence and 25 other federal departments to dispose of

Exhibit 32.4

Operational and Process Changes in Base/Wing Supply Organizations

Operational and Process Changes by Type	Number of Bases/Wings Reporting Change
Procurement and Local Purchasing	14
Customer Assistance or Service	14
Warehousing	13
Invoice/Accounts Verification	11
Receipts and Issues (including packaging)	10
Inventory Control/Stocktaking	9
Training and Education	9
Unit Materiel Control (Distribution Accounts, entitlements)	9
General Administration and Management	9
Transportation and Delivery	8
Cross-docking	7
Special Items (hazardous materiel, weapons)	7

Source: Office of the Auditor General survey data

Better vehicle disposal management saved $750,000 in the first year of the program.

vehicles through two private auction companies that have recently been amalgamated.

32.104 Departmental officials claim that the commissions for disposal previously charged by the Crown Assets Disposal Corporation have been reduced from 30 percent of the purchase price of each vehicle to 4.45 percent. In 1999, the first year that the new disposal process was adopted across the Department, the cost savings amounted to $750,000. We found that 14 bases and wings have used the process and half of them have received the proceeds from the sale of the vehicles to reinvest in their fleets. Departmental policy now provides for the proceeds from the sale of locally managed materiel, which includes vehicles, to be returned to an organization that has the budget to purchase that type of asset. This policy provides an incentive that previously did not exist in the vehicle fleet management process.

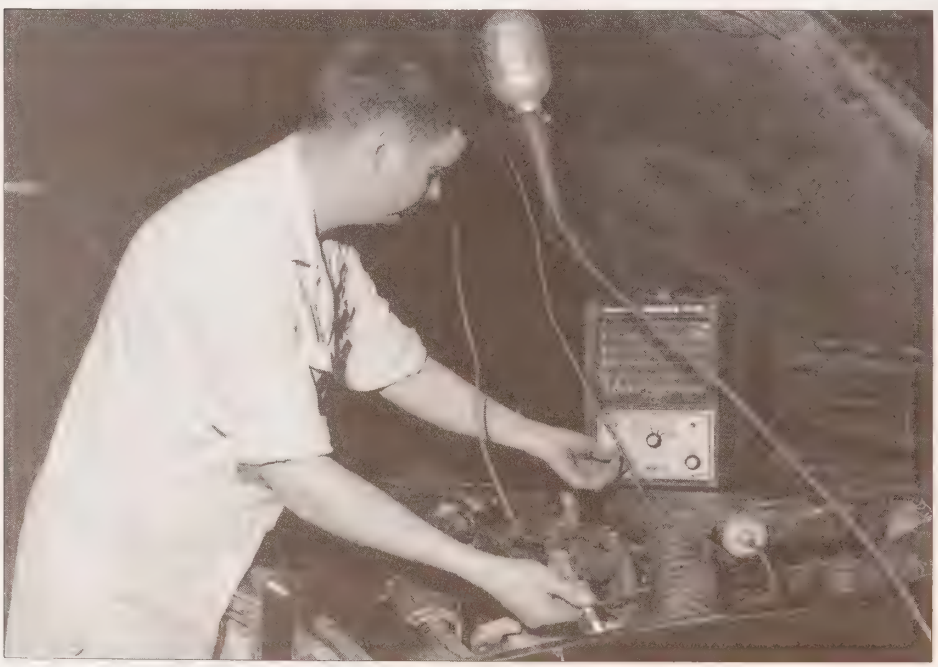
32.105 With the help of the new disposal process and the potential for returning proceeds back to the fleet manager, the Department is now able to make better life cycle decisions with the aim of reducing the age of the fleet. Departmental officials have briefed many fleet managers and maintainers on the state of the fleet and how a new reduced life cycle should be implemented. Seven fleet managers have already started to renew their fleets with the objective of reducing the impact of their age.

Base/Wing Transportation

32.106 Base/wing transportation sections provide local transport for passengers and cargo. They also operate special-purpose vehicles such as forklifts and snowploughs. In 1996 the Department had over 9,200 civilian pattern vehicles in its fleet, while in 2000 this number has increased to approximately 10,000. Base/wing transportation sections currently employ approximately 1,300 people.

Availability of performance information has improved significantly

32.107 With the introduction of the vehicle Fleet Management System to all



Better information is needed for vehicle maintenance and warranty use (see paragraph 32.102).

bases and wings in 1998-99, transportation managers now have access to much improved performance management data. We reviewed the documentation pertaining to the Fleet Management System and found that the system includes a variety of data on transportation activities, drivers and vehicles, as well as pertinent performance information and indicators.

32.108 Nearly all of the base/wing transportation staff who responded to our information request confirmed that the introduction of the Fleet Management System has improved their capability to obtain relevant performance information in managing their vehicle fleets.

Gaining full benefit from the new system will require further effort

32.109 Although the availability of data has improved significantly, we believe that additional effort will be required to ensure that management and performance information is effectively used and integrated with management processes and decisions. About half of the respondents to our information request concur.

32.110 Respondents told us that there are a number of impediments to improving the use of productivity information for management purposes. These impediments include the lack of training for the Fleet Management System, lack of resources to properly analyze and use the improved performance data, and weaknesses in the interface of the Fleet Management System with other system applications. Departmental officials informed us that efforts are now under way to address training deficiencies, including the use of performance measures now available through the Fleet Management System.

32.111 We are concerned that even with improved training and use of appropriate performance information, certain aspects of the overall management of the transportation function remain beyond the control of base/wing transportation staff. For instance, should sufficient funding not be available to acquire new vehicles at the optimal time, appropriate decisions based on the best performance information system cannot be made. Although tradeoffs in funding are always part of the management process, it is important to ensure that the motivation to make appropriate cost-effective decisions is not lost.

The change in productivity of base/wing transportation operations is unknown

32.112 Base/wing transportation operations have not been immune to the massive change affecting the Canadian Forces across the country. However, there is no consensus on whether the changes within the base/wing transportation organizations have led to an increase or decrease in productivity.

32.113 Nine of the 16 bases and wings we contacted reported four or more significant changes involving light commercial vehicle transportation operations, processes or functions in the past four years. Like other support operations, there has been confusion surrounding the devolution of responsibilities, accountabilities and operating budgets to the base/wing levels. Given the degree of change, and the lack of management information on productivity, we have been unable to determine whether there has been a change in base/wing transportation productivity.

32.114 Probably the largest change made by base/wing transportation sections across the Canadian Forces has been the increased use of the user-driver concept. At the time of our 1996 audit, professional drivers employed by the transportation sections drove the majority of cars and light trucks; now, those that need transportation drive themselves, thereby eliminating the need for a professional driver. The remaining professional drivers,

The Department has made significant changes to transportation services, but has not measured whether productivity has increased or decreased.

for the most part, now drive heavier equipment and special purpose vehicles. Although the number of professional drivers has decreased, the number of vehicles required has increased. Departmental officials could not provide an analysis to confirm whether the increased use of the user-driver concept has led to an increase or decrease in productivity.

Information to Parliament

There are two main reports to Parliament

32.115 External reporting requirements for federal departments focus primarily on two annual reports to Parliament — the Report on Plans and Priorities and the Departmental Performance Report. These documents require a focus on intended results, strategies for achieving them and measurements of these achievements.

32.116 The government's Expenditure Management System (EMS) is a cyclical process by which the government establishes broad national priorities and a budget strategy, arrives at a national budget decision and issues subsequent direction from which federal departments create their business plans. The Planning, Reporting and Accountability Structure (PRAS) outlines how departments will implement a business approach to planning, how they will report achievements against agreed business lines, and how they will be held accountable for delivering identified outcomes.

There is still no performance measurement system in place

32.117 Although National Defence and the Canadian Forces have made attempts to develop performance measurement systems for over two decades, their efforts have fluctuated with the priorities of management and the issues of the day. While the Department's senior strategic guidance for 2000 stated that performance measures and indicators would be included in the guidance for the following year, the guidance for 2001 in fact contains only brief mentions of the measures, with no details and no indicators. As well, the three-year time frame for the implementation of the new measures has been removed.

32.118 There have been a number of false starts and little continuity of leadership in efforts to improve performance measurement. Environmental Chiefs of Staff and Group Principals recognize the need for further effort to integrate their own performance measurement systems with the departmental reporting system.

32.119 To comply with the Treasury Board Secretariat's guidelines, the Department needs to improve its reporting in important areas. Better linkages are required between activities/accomplishments and results/outcomes. As well, the Department needs more balanced reporting that identifies performance shortfalls, opportunities for improvement, and corrective measures taken to improve future performance. Without adequate performance measures in place, it is not possible to measure achievements against desired outcomes, nor to determine the extent of any shortfalls.

32.120 In our 1996 audit, we recommended that National Defence develop meaningful measures of its support activities and include the most significant ones in its reporting to Parliament. This has yet to be done.

Limited Progress in Renewal Efforts

32.121 Although the Department's five-year renewal program is well under way, more work remains. While some Defence officials explain that the Department is now in a "continuous improvement mode," we believe it is

important to determine the root causes of the apparent lack of progress on implementing the recommendations included in our 1996 Report. We therefore adopted a model that categorizes possible factors impeding institutional renewal. Exhibit 32.5 describes the four factors considered in the model. The results of our analysis are portrayed in Exhibit 32.6.

32.122 Competing pressures are the most powerful factor that has impeded the progress in implementing our 1996 recommendations. This suggests defence support productivity has had a low priority among the Department's other competing objectives. There can be no doubt that National Defence has experienced significant personnel and budget reductions and faced significant other priorities during the five-year renewal period.

32.123 Transitional problems are identified as the second most likely factor that has impeded progress. This suggests that trying to do too much at once, without having a clear strategic plan including the training and tools in place to affect the desired change, contributed to the lack of progress. We found that the Department had encountered difficulties trying to manage the massive renewal efforts without a clear corporate vision and a strategic plan supporting this vision. In many instances, we noted a breakdown in communications and lack of training and tools to implement changes. However, in terms of strategic planning, the Department has recently produced a document entitled *Shaping the Future of the Canadian Forces: A Strategy for 2020*. The strategy embodied in the document articulates National Defence's vision, overall long-term objectives and short-term targets for the future, but does not deal with the specifics of its renewal plans.

Exhibit 32.5

Institutional Reform Model

State of the Organization	Characteristics
Normal	• There is no evident dysfunction. Confusion, fatigue and counter-productivity are normal during a period of monumental change; there remains a willingness to pursue change.
Competing Pressures	• Rupture between official statements and concrete efforts is evident; concerns are of low (if any) priority among other issues. • Attention is being paid to other priorities; no resources (time, money, support) are left; people are left alone with their problems. • Timing is unrealistic.
Ideological Problems	• The objectives are not suitable (wrong medication); they are incompatible with the needs or the architecture (base/wing concept); impacts are underestimated. • There is open resistance to the nature of the change and evident dysfunction.
Transitional Problems	• The medication is right (objectives are appropriate) but dosage is wrong (administration problem): not enough support/training/communication. Deficiencies exist in the reallocation of resources, passive resistance is unchallenged, and negative leadership is not counterbalanced by affirmative actions. • Problems are not content-related but are associated with implementation.

Source: Managing Change, June 1994

32.124 Departmental officials told us that the next step is to design an action plan including targets, priorities, communication plans, and training programs, which will support Strategy 2020 but also guide its actions during the transition period. This action plan is currently under development in the Directorate of Strategic Change and will support Strategy 2020 while reflecting the new reality of National Defence and the Canadian Forces. However, the Department has yet to provide a date for implementation of the action plan.

32.125 Many people we interviewed indicated that they were experiencing confusion and change fatigue, which is a normal state in an institution undergoing massive renewal. However, they remained willing to pursue change.

32.126 National Defence should continue to develop and implement its action plan "Toward a Modern Management Agenda". It should place priority on giving staff who are managing support activities the performance measurement tools and cost information necessary to ensure that cost-effective support is delivered to operational units. Wherever possible, the Department should provide these staff with appropriate incentives, such as the recently introduced policy on a unit's authority to retain the savings from the disposal of surplus assets.

National Defence's response: The Department continues to face many challenges and competing priorities that impede its ability to increase defence support productivity. Notwithstanding the massive organizational, financial,

Exhibit 32.6

Analysis of Lack of Progress in Implementing 1996 Recommendations

1996 Recommendation Reform Audit Area	Model Category that Best Describes Lack of Progress			
	Normal	Competing Pressures	Ideological Problems	Transitional Problems
Business Planning		1		2
Operating Budgets		2		1
Culture		1	Y	
Change Co-ordination		1		2
Alternative Service Delivery			1(X)	2
Individual Training		1		2
Aircraft Maintenance		1(Y)		2
Base Supply		1		2
Base Vehicle Maintenance		1		2
Base Transportation		1		2

Source: Office of the Auditor General analysis

Legend:

1 - Indicates the model category "most applicable".

2 - Indicates the model category "next most applicable".

(X) The two major alternative service delivery projects we reviewed may result in job losses or significant employment changes for the Department's civilian employees and the military members of the Canadian Forces.

(Y) There has been some positive progress toward improving aircraft maintenance productivity, but efforts to implement a quality management system are low on the list of the Air Force's priorities.

doctrinal and cultural changes that this Department has been undergoing, some substantial improvements have already been made. For example, the business planning process has resulted in a greater awareness of the need to consider the resource impacts in defence decision making at all levels. It has been a significant tool in helping all levels cope with the implementation of reduced budgets by fostering fundamental change as opposed to arbitrary budget reductions and non-prioritized change programs. Another significant achievement has been the Department's recently introduced strategic plan entitled, "Shaping the Future of the Canadian Forces: A Strategy for 2020". This document will provide the overarching guidance necessary to manage change in the future.

As one of twelve pilot departments, National Defence is committed to the development of a Modern Comptrollership Action Plan that will move it toward a modern management agenda. This Action Plan is founded on a baseline study that identified priority areas for improvement. In light of high workloads identified in the Public Service survey and the Department's own D2000 survey, the Department has decided to build upon four key management initiatives already under way rather than launching new projects to address all priority areas. These key management initiatives form the pillars of the Modern Management Action Plan, the Financial Information Strategy, the Integrated Defence Management Framework, the Information Management Strategy, and Human Resources initiatives. A key commitment has been made to managing the integration of the four pillars of modern management through a governance structure led by the Deputy Minister.

The Department acknowledges that its progress with respect to some of its costing objectives has been less than hoped. However, this slow progress pertains principally to the fully integrated implementation of activity-based costing. Preparing for Y2K and responding to other governmental priorities such as the Financial Information Strategy and the implementation of accrual accounting have resulted in largely unavoidable delays in integrating activity-based costing throughout the Department. Regardless of the challenge we still face in terms of achieving a fully integrated activity-based costing capability, the Department's decision-making process has not suffered in the interim. Decision makers have access to a considerable amount of information, particularly at the strategic level. In fact, very few public sector organizations produce as much costing information and guidance as does National Defence. Despite this success, the Department has plans to further develop both cost and performance information. The comprehensive evaluation of information needs for management at all levels is being conducted through the development of the Integrated Defence Management Framework. With respect to performance measurement, the development of the Department's performance measurement framework is an iterative process that will continue to be refined. An important milestone in this development is the inclusion of performance measurement targets for 2001.

The Department will continue to implement change activities that will have a positive impact on defence support productivity. That said, the business planning process rationalizes the decision process to ensure that those activities that have the highest impacts on delivery of the capabilities called for in the 1994 White Paper are carried out while reducing or eliminating lower-priority activities.

Conclusion

Management renewal efforts remain a work-in-progress largely because of the lack of resources to properly complete them and the lack of an overall plan against which efforts can be assessed.

32.127 Overall, the Department's five-year renewal program remains a work-in-progress. The base/wing defence support organizations have undergone significant organizational, operational and process changes. Neither we nor the base/wing resource managers can determine whether these changes have increased or decreased the productivity of vehicle maintenance, supply and transport operations.

32.128 The key tools introduced as part of the renewal program, namely business plans and operating budgets, continue to evolve as management tools.

32.129 Departmental business plans at all levels do not address the measurement of productivity through use of any target performance information. Most base/wing level organizations are attempting to identify the data sources from which to develop performance information.

32.130 There have been significant unintended consequences from the introduction of operating budgets. The Department has recognized this and is in the process of developing action plans to address the situation.

32.131 The failure to track and report the results of the major re-engineering exercise at National Defence Headquarters, which finished in June 1997, leaves a significant gap in what has really been achieved by those having the responsibility to implement the plans. The Department's efforts to change its culture to a more businesslike environment also remain a work-in-progress. The newly created Directorate of Strategic Change has responsibility for addressing the various change initiatives and the cultural reform initiative.

32.132 Efforts to improve the productivity of aircraft maintenance appear to have been successful, although the introduction of a management program for maintenance of quality has been delayed.

32.133 We can only conclude that much remains to be done before the productivity of defence support functions can be measured and the results used in making such functions more cost-effective.

About the Audit

Objectives

The objectives of the audit were:

- to report to Parliament on whether recommendations and observations raised in our 1996 chapter had been addressed by National Defence;
- to determine whether management action taken would likely correct deficiencies;
- to re-audit support productivity in the areas of individual training, base commercial vehicle maintenance and base transportation for the four intervening years (1996 to 2000), and report to Parliament on the changes; and
- to determine the reasons for delays in implementing our 1996 recommendations to improve defence support productivity.

Scope

We examined each of the recommendations made in our 1996 chapter. For review purposes, we classified each of the recommendations into one of two groups.

For the first group of recommendations, we performed a re-audit and attempted to re-measure the progress toward improving support productivity. This group included the base/wing commercial vehicle maintenance and transport support functions and the individual training function at the schools and managing authority level. We were only able to re-measure the individual training function because of massive organizational and process changes in the other support areas.

For the second group of recommendations, we conducted interviews with officials at the national, regional and base/wing levels. We also gathered and analyzed documentation to support the Department's contentions on management action taken. This group included business planning, operating budgets, culture, change co-ordination, two alternative service delivery projects, aircraft maintenance, base/wing supply operations and information to Parliament.

In particular, we drew review data on business planning, operating budgets and other information from a set of information requests sent to 23 bases/wings and 33 squadrons. In addition, we gathered information on issues related to individual training by sending information requests to 42 schools and the four managing authorities that oversee the schools.

Criteria

To assess the progress made on implementing our recommendations, we used the goals specified by the Department in its initial response to the 1996 chapter. Where applicable, we also reviewed trends over time and management action taken or about to be undertaken to address the deficiencies identified in 1996.

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Appendix

Departmental Progress Made Against 1996 Recommendations of the Auditor General

Recommendations	Assessment of Progress		
	Fully met	Partially met	Not met
National Defence should ensure that it maintains a centre for the co-ordination of change. The centre should continue to track the activities of major initiatives, address common problem areas, and report to senior management. In addition, it should continue to ensure that procedures are in place to communicate information on best practices and bring any delays or conflicts to the attention of senior management (paragraph 34.32).			√
National Defence should continue to monitor those employee beliefs and values on which its new management system depends. It should strengthen measures to ensure that management systems support the desired culture (34.41).			
National Defence should develop and make available cost and performance data to support business planning. It should establish dates by which such data are to be available at each planning level (34.47).		√	
National Defence should ensure that managers know how to use operating budgets and should provide them with incentives to do so (34.54).		√	
National Defence should move as quickly as possible to communicate information throughout the entire Department on the improvements achieved by the three most successful bases (34.68).		√	
National Defence should monitor transaction costs and volumes per employee as indicators of performance. Performance data should be readily available to managers (34.69).			√
National Defence should install productivity measurement in all base transportation sections. It should set a date by which measures will be in place and set goals for raising the productivity of below-average units (34.78).		√	
The Department should monitor the productivity of personnel in base transportation operations and adjust the number of personnel according to needs (34.79).			√
National Defence should review and manage the impact of the age of its vehicle fleet on overall vehicle maintenance productivity and make whatever changes are necessary to increase productivity (34.85).		√	
The Department should assess the results of the disposal pilot projects and conduct such negotiations with the Treasury Board as are necessary to reach the most cost-effective solution, including determining what incentives should be built into the overall system (34.86).	√		

Recommendations	Assessment of Progress		
	Fully met	Partially met	Not met
The Department should maximize its use of the vehicle warranties it has purchased (34.87).		√	
Air Command should apply the lessons learned at Cold Lake at all bases possible (34.99).		√	
Air Command should provide unit managers with reliable cost information at the earliest possible date in order to improve decision making and accountability (34.100).		√	
National Defence should assess its need for any instructors and support staff above the 1990 level per student as soon as possible and adjust staff levels on a continuing basis thereafter to meet actual needs (34.108).			√
National Defence should develop meaningful measures of its support activities and should include the most significant ones in its reporting to Parliament (34.111).			√

Source: Report of the Auditor General of Canada, Chapter 34, National Defence – Support Productivity, 1996.

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

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December 2000

Report of the Auditor General of Canada to the House of Commons

Chapter 33
Follow-up of Recommendations in Previous Reports

Chapter 34
Other Audit Observations

Appendices



December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 33

Follow-up of Recommendations in Previous Reports

The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

	Page
Main Points	33-5
Introduction	33-7
Fisheries and Oceans — Sustainable Fisheries Framework: Atlantic Groundfish — 1997, Chapter 14, Rationalization and Renewal: Atlantic Groundfish — 1997, Chapter 15 and Managing Atlantic Shellfish in a Sustainable Manner — 1999, Chapter 4	33-10
Human Resources Development Canada — A Critical Transition Toward Results-Based Management — 1997, Chapter 17	33-16
Revenue Canada and Department of Finance — Understanding Changes in Tax Revenues: GST — 1997, Chapter 32	33-20
Revenue Canada — Awarding a Duty Free Shop Licence — 1997, Chapter 36	33-23
Revenue Canada, Department of Finance and Department of Justice — Interdepartmental Administration of the Income Tax System — 1998, Chapter 5	33-24
Population Aging and Information for Parliament: Understanding the Choices — 1998, Chapter 6	33-27
Federal Laboratories for Human and Animal Health Building Project — 1998, Chapter 7 and Canadian Security Intelligence Service — National Headquarters Building Project — 1996, Chapter 8	33-29
Promoting Integrity in Revenue Canada — 1998, Chapter 15	33-34
Management of the Social Insurance Number — 1998, Chapter 16	33-37
Financial Information Strategy — 1998, Chapter 18 and 1999, Chapter 21	33-40
Veterans Affairs Canada — Disability Pensions — 1998, Chapter 23	33-44
Revenue Canada — International Tax Directorate: Human Resource Management — 1998, Chapter 24	33-48
Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage — 1998, Chapter 27	33-52

Follow-up of Recommendations in Previous Reports

Main Points

33.1 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

33.2 Our 1998 audit of selected grant and contribution programs of **Industry Canada** and the **Department of Canadian Heritage** identified weak management practices. Our follow-up found that Industry Canada is making reasonable progress in addressing our recommendations. However, we uncovered a new issue — a $20 million payment in advance of need resulting in as much as $5 million of interest costs to the government. We found that the Department of Canadian Heritage has not made sufficient improvement in the management of grants and contributions under its Multiculturalism Program. Program objectives remain unclear and there are still serious problems with due diligence. We plan to report again next year on the Department's progress in remedying these problems.

33.3 Our follow-up of three previous chapters on Atlantic fisheries management found that **Fisheries and Oceans** is moving forward with a plan for the development and approval of a sustainable fisheries framework and the development of a new approach to fisheries management for the Atlantic fisheries. While the plan appears to address our key recommendations, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management. Only then can we conclude that our recommendations have been fully addressed.

33.4 Since our report on **Population Aging and Information for Parliament**, the budgetary process has become more transparent and forward looking. The adjustment of budget forecasts for "prudence" is now shown explicitly, rather than embedded in the revenue and expenditure projections. In addition, the fiscal outlook has been extended from two years to five years. This, however, still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

33.5 The departments and agencies responsible for the planning and construction of the **Canadian Security Intelligence Service headquarters** and the **federal laboratories for Human and Animal Health** have taken action on most of the original audit recommendations and observations. However, the laboratory facilities in Winnipeg remain significantly underutilized. The Treasury Board Secretariat has only recently initiated a review of its monitoring role and methodology to ensure an appropriate level of oversight over major Crown projects. Public Works and Government Services Canada has not resolved certain contracting issues such as the definition of errors and omissions in contract documents and introducing meaningful incentives for reducing costs.

33.6 After our audit of the management of the Social Insurance Number (SIN), the government took steps to improve the integrity of data in the Social Insurance Register. **Human Resources Development Canada** has increased the number of investigations of SIN fraud and abuse and actions to address other issues identified by our audit are under way. However, a comprehensive study of the impact and extent of use of the SIN is still needed to fully understand the practical, economic and political implications of its use.

33.7 The government has made progress in its efforts to implement its **Financial Information Strategy** but considerable work is needed to ensure that the financial systems and accrual accounting policies will be in place by the April 2001 deadline. The longer-term integration of better financial information into day-to-day management decision making remains a challenge.

33.8 In addition to those mentioned above, this chapter includes follow-up reports on the **Canadian Customs and Revenue Agency**, the **Department of Finance**, **Human Resources Development Canada** and **Veterans Affairs Canada**. Other follow-up work is reported in different chapters throughout our reports.

Introduction

33.9 It is our policy to make recommendations in all of our audits that are oriented toward correcting current or future problems and improving the management of government. We encourage entities that we audit to respond to our recommendations in writing, stating whether they agree with them, and how they plan to implement corrective action. We, in turn, publish their responses in our report to inform Parliament and the public.

33.10 Approximately two years after the initial audit, we return to determine what corrective action has been taken by the entity. This work forms the basis of our follow-up report.

33.11 It is important to understand what a follow-up is, and is not. Apart from a few unique situations, it is not a second audit of the same issues. Rather it is a report on what management tells us, or can demonstrate to us, about the progress it has made toward meeting our recommendations. We do not exhaustively seek or examine additional evidence to support or refute what management has told us, but we do review its claims for reasonableness and report to Parliament accordingly.

33.12 This year we have included follow-up in each of our reports. In October, Chapter 16 contained the follow-up report on six previous audits. Other follow-up work is reported in different chapters throughout our reports (see Exhibit 33.1).

33.13 This chapter contains our follow-up reports on 16 chapters and one other audit observation, reported originally between 1996 and 1999. In addition, the status of 19 chapters reported between 1993 and 1998 and due for follow-up is outlined in Exhibit 33.2.

33.14 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

Exhibit 33.1

Follow-up Work Reported in Other Chapters

Year and Chapter	Title	Responsible Auditor	Comments
1993			
22	Department of Transport – Airport Transfers	Basia Ruta	Included in Chapter 10, October 2000 Report.
1995			
5	Office of the Superintendent of Financial Institutions – Deposit-taking Institutions Sector	Jeff Greenberg	Reported in Chapter 16, October 2000 Report.
10	Crown Corporations - Fulfilling Responsibilities for Governance	Brian Strom	Included in Chapter 18, December 2000 Report.
24	Revolving Funds in the Parliamentary System: Financial Management, Accountability and Control	John Hodgins	Reported in Chapter 16, October 2000 Report.
1996			
3	Evaluation in the Federal Government	John Mayne	Included in Chapter 20, December 2000 Report.
5	The Reform of Classification and Job Evaluation in the Public Service	Katherine Elliott	Included in Chapter 22, December 2000 Report.
9	Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation	Neil Maxwell	Reported in Chapter 28, December 2000 Report. Further follow-up to Chapter 28, December 1998 Report.
14	Service Quality	Theresa Duk	Included in Chapter 1, April 2000 Report.
34	National Defence – Support Productivity	Peter Kasurak	Included in Chapter 33, December 2000 Report.
1997			
2	Financial Management: Developing a Capability Model	Bruce Sloan	An audit of five departments using the Financial Management Capability Model was reported in Chapter 13, October 2000 Report.
4	Control of the Transboundary Movement of Hazardous Waste	Rick Smith	Reported in Chapter 9, May 2000 Report of the Commissioner of the Environment and Sustainable Development.
5	Reporting Performance in the Expenditure Management System	John Mayne	Included in Chapter 19, December 2000 Report.
11	Moving Toward Managing for Results	John Mayne	Included in Chapter 20, December 2000 Report.
13	Health Canada – First Nations Health	Ronnie Campbell	Reported in Chapter 15, October 2000 Report.
19	Transport Canada – The Commercialization of the Air Navigation System	Hugh McRoberts	Air Navigation System component reported in Chapter 28, December 2000.
26	Canada Labour Relations Board	Jean Ste-Marie	Reported in Chapter 16, October 2000 Report.
27	Ozone Layer Protection: The Unfinished Journey	Rick Smith	Reported in Chapter 9, May 2000 Report of the Commissioner of the Environment and Sustainable Development.
30	Office of the Superintendent of Financial Institutions – Insurance and Pensions	Jeff Greenberg	Reported in Chapter 16, October 2000 Report.
1998			
3	National Defence – Equipping and Modernizing the Canadian Forces	Peter Kasurak	Reported in Chapter 16, October 2000 Report.
4	National Defence – Buying Major Capital Equipment	Peter Kasurak	Reported in Chapter 16, October 2000 Report.
13	National Energy Board	Roger Simpson	Reported in Chapter 28, December 2000 Report.
20	Preparedness for Year 2000: Government-Wide Mission-Critical Systems	Nancy Cheng	Included in Chapter 25, November 1999 Report.

Exhibit 33.2

Chapters Due for Follow-up

Year and Chapter	Title	Responsible Auditor	Comments
1995			
6	Federal Transportation Subsidies – *The Western Grain Transportation Act* Program	Hugh McRoberts	Deferred. Planned for 2001.
1996			
19	Revenue Canada – Child Tax Benefit and Goods and Services Tax Credit Programs	Basia Ruta	Deferred. Planned for 2002.
1997			
6	Contracting Performance	Shahid Minto	No follow-up is planned. Followed-up in part in Chapter 26, December 1998 Report.
10	Natural Resources Canada – Energy Efficiency	Rick Smith	Deferred. Planned for May 2001 Report of the Commissioner of the Environment and Sustainable Development.
25	Citizenship and Immigration Canada and Immigration and Refugee Board – The Processing of Refugee Claims	Liette Dumas-Sluyter	Deferred. Planned for 2001.
1998			
1	Expenditure and Work Force Reductions in the Public Service	Katherine Elliott	Deferred. Planned for 2001.
2	Expenditure and Work Force Reductions in Selected Departments	Katherine Elliott	Deferred. Planned for 2001.
8	Department of Finance – Effectiveness Measurement and Reporting	Jeff Greenberg	Deferred. Planned for 2001.
9	Reporting Government Financial Results: The Importance of Complying with Objective Accounting Standards	John Hodgins	No separate follow-up is planned. This was a study and will be followed up as part of ongoing attest audits.
10	Canadian Human Rights Commission – Human Rights Tribunal Panel	Alan Gilmore	Deferred. Planned for 2002.
11	Agriculture and Agri-Food Canada – Cash Advance Program	Neil Maxwell	Deferred. Planned for 2001.
12	Creation of the Canadian Food Inspection Agency	John Mayne	No separate follow-up is planned. This was a study and contained no recommendations.
14	Indian and Northern Affairs Canada – Comprehensive Land Claims	Grant Wilson	Deferred. Planned for 2001.
17	Patented Medicine Prices Review Board	Ronnie Campbell	Deferred. Planned for 2001.
19	Electronic Commerce: Conducting Government Business via the Internet	Nancy Cheng	Deferred. Planned for 2001.
21	Canadian International Development Agency – Geographic Programs	John Hitchinson	No separate follow-up is planned. This was the third installment of a phased follow-up reported in Chapter 13, 1995 Report and Chapter 29, 1996 Report.
22	The Federal Science and Technology Strategy: A Review of Progress	Peter Simeoni	No separate follow-up is planned. This chapter was a follow-up of Chapter 15, 1996 Report.
25	Transport Canada – Investments in Highways	Hugh McRoberts	Deferred. Planned for 2001.
26	Contracting Professional Services: Selected Sole-Source Contracts	Hugh McRoberts	Deferred. Planned for 2001.

Fisheries and Oceans — Sustainable Fisheries Framework: Atlantic Groundfish — 1997, Chapter 14, Rationalization and Renewal: Atlantic Groundfish — 1997, Chapter 15 and Managing Atlantic Shellfish in a Sustainable Manner — 1999, Chapter 4

Assistant Auditor General: Ronald C. Thompson
Director: Kevin Potter

Background

33.15 In our 1997 Report, we audited Fisheries and Oceans' management of the groundfish fisheries in Atlantic Canada. The groundfish fisheries had been sharply reduced following the near collapse of many of the commercial fisheries. In Chapter 14, we recommended that the Department identify the most likely relative contribution of the various factors related to the collapse of the groundfish stocks. We also recommended that the Department develop a strategy to further reduce capacity in the groundfish industry, establish measurable indicators and performance expectations, and develop a national fisheries policy framework related to sustaining the fisheries resource base. In addition, we recommended that the Department renew its efforts to have the government clarify fisheries objectives in legislation.

33.16 In Chapter 15 of our 1997 Report, we examined the Department's management of the licence buyback element of The Atlantic Groundfish Strategy (TAGS), its management of groundfish stocks, and its new partnership arrangements with fishers. We recommended that the Department ensure that accountability for conservation of stocks be an integral part of any arrangement with fishers, and that it improve key groundfish monitoring, control and surveillance systems and processes. We also observed that overcapacity continued to exist, even though 545 groundfish licences had been removed.

33.17 In our 1999 Report, we audited Fisheries and Oceans' management of the lucrative Atlantic shellfish fisheries. In 1997, shellfish landings had a value of $920 million, or 81 percent of the value of all landings in the region. We noted that serious deficiencies still existed in fisheries management. We recommended that the Department:

- develop a sustainable fisheries framework;
- have the government clarify its fisheries objectives in legislation;
- correct weaknesses in its shellfish monitoring, control and surveillance systems and processes;
- develop, over time and in consultation with fishers and other stakeholders, biological reference points and conservation guidelines as the basis for making recommendations on resource use; and
- clarify its objectives for co-management and, where necessary, seek parliamentary approval to implement this approach.

33.18 On 2 June 1999, the Standing Committee on Public Accounts issued its Thirtieth Report, based on its consideration of Chapter 4 of our 1999 Report. The Committee made nine recommendations to improve the Department's management of fisheries resources. Besides embracing our

recommendations, the Committee recommended that the Department:

- thoroughly study harvesting capacity in the Atlantic fisheries;
- obtain an independent, objective assessment of its science capacity; and
- report to the Committee on the measures implemented to ensure that its use of specified purpose accounts and other financial arrangements with third parties adhere faithfully to legislative and policy requirements.

Scope

33.19 Our observations in this follow-up are based on a review of documents provided to us and on interviews with departmental officials. The documents we reviewed included:

- the Government's Response to the Thirtieth Report of the Standing Committee on Public Accounts, October 1999;
- the Department's status report for Chapters 14 and 15 of our 1997 Report and Chapter 4 of our 1999 Report; and
- the final draft of The Management of the Fisheries on Canada's Atlantic Coast — A Discussion Document on Policy Direction and Principles, September 2000.

The draft discussion document is intended to be used for public input in the development of a sustainable fisheries framework for the Atlantic fisheries, and is part of the Department's Atlantic Fisheries Policy Review.

Conclusion

33.20 The Department is moving forward with a plan for the development and approval of a sustainable fisheries framework for the Atlantic fisheries. Public consultation on the draft discussion document, The Management of the Fisheries on Canada's Atlantic Coast, is a key part of this plan. However, no date has been established for the development and implementation of the framework. The Department will have to work diligently to move the framework to full implementation.

33.21 The Department has informed us that legislative changes will not be considered until the sustainable fisheries framework has been fully developed and approved by Cabinet. We support this position.

33.22 Phase one of the Department's Atlantic Fisheries Policy Review (AFPR) is to define policy direction and goals. Phase two is to develop a new approach to fisheries management. The Department is moving forward with phase two while working on phase one. Even though the Department is in the early stages of developing its new fisheries management approach, Objective-Based Fisheries Management, we have noted that it appears to address recommendations in the Public Accounts Committee's report and our 1997 and 1999 reports.

33.23 In our opinion, the Department's AFPR is a significant step toward addressing our key recommendations. However, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management before we can conclude that our recommendations have been fully addressed.

33.24 The Department has been less successful in addressing the Public Accounts Committee's recommendation to have an independent, objective assessment of the Department's science capacity completed and reported to the Committee by 31 March 2000. The government responded to this recommendation by informing the Public Accounts Committee that it would conduct a review that would include an overview of science capacity in other countries with significant fisheries, and it would focus on the science required to support the Department's mandate. A consultant, under contract to the

Fisheries and Oceans will have to work diligently to move the sustainable fisheries framework to full implementation.

Department's Review Directorate, is currently completing this review. In our opinion, the initial draft review does not meet the government's commitments to the Public Accounts Committee.

Observations

Phase One — The Atlantic Fisheries Policy Review and a new sustainable fisheries framework

33.25 In its draft discussion document, The Management of the Fisheries on Canada's Atlantic Coast, the Department proposes a policy framework that changes its role in fisheries management from "micro-manager, heavily involved in day-to-day operations, to policy and strategic direction-setter." While the discussion document does not endorse any one direction, it addresses four areas of fishery management: conservation, economic and social viability, access and allocation, and governance.

33.26 The Department proposed to have public consultations on the discussion document during the fall of 2000. Once consultations are finished, the Department plans to complete the development of its sustainable fisheries framework and seek Cabinet approval. The Department has informed us that if elements of the framework cannot be implemented within existing legislation, legislative change will be proposed.

Phase Two — The Atlantic Fisheries Policy Review and implementation of the framework

33.27 While not prejudging the outcome of phase one, the Department has begun detailed design work to implement some aspects of the sustainable fisheries framework. It plans to establish long-term conservation objectives or biological reference points, as a starting point for the management of individual fisheries. The Department will then set short- or medium-term conservation targets as part of the Objective-Based Fisheries Management approach.

33.28 Other key aspects of the new fisheries management approach include:

- risk management principles as the basis for management strategies;
- the precautionary approach (to err on the side of caution when making decisions);
- the ecosystem approach (to take into account inter-species relationships and habitat conditions); and
- monitoring, control and surveillance systems and processes that support management strategies.

The Department plans to pilot this new fisheries management approach for certain fisheries in the 2000–01 fishing season.

33.29 The Department has recently begun to develop a performance management framework that uses individual fisheries and Objective-Based Fisheries Management as its building blocks. This framework will inform the public and Parliament about the Department's conservation and sustainable use objectives and achievements by providing summary data for each fishery. The Department's draft Performance Report for the period ending 31 March 2000 refers to the development of a conceptual framework for measuring conservation outcomes. The implementation of the performance management framework depends on the implementation of the Objective-Based Fisheries Management approach for each of the 160 or more fisheries across the country.

33.30 The Department has responded to many of the recommendations raised in Chapter 14 of our 1997 Report, Chapter 4 of our 1999 Report and the Thirtieth Report of the Standing Committee on Public Accounts. However, the Department has much work to do to

develop and implement a sustainable fisheries framework for Atlantic fisheries.

The Department is refocussing its monitoring, control and surveillance efforts

33.31 The Department has indicated that it is taking a more "strategic and integrated approach to traditional fisheries surveillance and enforcement." While this new approach has not yet been implemented, we observed several initiatives under way that do respond to our recommendations:

- The Department has developed new information systems to assist fisheries enforcement.

- The Department is piloting new techniques to integrate data from multiple sources (air- and sea-based enforcement, at-sea observers and dockside monitoring programs), in realtime, to better understand enforcement risks.

- The Department is considering using technology — for example, satellite-based technology — to streamline monitoring.

- The Department has created new positions and made new funding available to implement these initiatives.

33.32 Effective 1 January 1999, the regulations governing the dockside monitoring program were amended. The amendments were meant to strengthen the control environment surrounding the companies carrying out the dockside monitoring and to support more accurate and timely recording of landing information. Such regulatory change is important and responds to our recommendations. In addition, the Department has contracted an independent organization to assess the dockside monitoring companies' documentation and implementation of quality systems against standards developed by the Department. However, the Department has not yet implemented a process to assure itself that the dockside monitoring program is operating effectively.

Harvesting capacity is still being studied

33.33 We raised concerns about the limited impact of the Department's initiatives to reduce harvesting capacity, and about subsequent decisions to permit increased capacity in the crab and shrimp fisheries. The Public Accounts Committee recommended that the Department prepare a study on the harvesting capacity in the Atlantic fisheries, which would clarify the Department's definition of harvesting capacity, develop means to determine trends, and provide for harvesting capacity to be addressed in the Department's Performance Report, beginning with the report for the period ending 31 March 2000.

33.34 In March 1999, the United Nations Food and Agriculture Organization Council of Ministers approved the International Plan of Action to achieve efficient, equitable and transparent management of fishing capacity, preferably by 2003 and no later than 2005. The government's response to the Public Accounts Committee's recommendation indicated that Canada has pledged to become one of the first nations to complete a plan of action for the management of fishing capacity.

33.35 The Department has established a working group to develop Canada's plan of action. The measures to be developed that are relevant to the Public Accounts Committee recommendation include:

- developing a process to systematically measure the harvesting capacity of Canadian fisheries by the end of 2001;

- consulting with industry and the provinces during 2001 on harvesting capacity levels and options for an action plan; and

- developing plans to manage surplus capacity, if necessary, by the end of 2002.

The government's response to the Public Accounts Committee indicated that it would provide a status report on these initiatives in the Department's Performance Report for the period ending 31 March 2000. However, the draft Performance Report that we reviewed did not provide information on the status of these initiatives.

Further fishery restructuring and adjustment measures

33.36 On 19 June 1998, the government announced a series of measures designed "to provide individuals with options for their future, to help fishing communities diversify their economies and to encourage and capitalize on opportunities in a new economy." Some of these measures under the Canadian Fisheries Adjustment and Restructuring (CFAR) program apply to communities and individuals not only in Atlantic Canada and Quebec but also on the West Coast.

33.37 The CFAR objectives that pertain to Atlantic Canada are:

- to bring closure to TAGS;
- to continue the restructuring of the Atlantic groundfish fishery;
- to assist individuals and communities with adjustment; and
- to ensure balance and equity between regions.

The government has said that these objectives are to be achieved in consultation with provincial governments, where required.

33.38 A total of $760 million was allocated to implement the measures in Atlantic Canada. The measures offer a variety of initiatives to help people who permanently exit the fisheries to take advantage of new opportunities. These measures focus on long-term strategies for human resource and community economic development. The goal is to equip individuals and communities with the skills and assistance they need to prepare for life beyond the fishery.

33.39 Fisheries and Oceans is administering the CFAR groundfish licence retirement measure. At 1 August 2000, the Department had retired 1,902 groundfish licences at a cost of $167 million. A further 302 licences had been retired through early retirement measures administered through Human Resources Development Canada.

33.40 The removal of these groundfish licences is important to the management of the groundfish fishery. However, as we noted in paragraph 33.35, the Department is still developing the means to measure and, if needed, manage surplus harvesting capacity. Therefore, the Department does not know the impact of these measures on harvesting capacity.

Shellfish licences continue to be issued in Newfoundland

33.41 Our April 1999 Report commented on the potential adverse impact of new temporary shrimp and snow crab licences in the Newfoundland Region. Subsequent to that report, the Department issued an additional 59 temporary shrimp licences and 209 temporary snow crab licences to fishers in the Newfoundland Region. We continue to be concerned about the potential impact of these additional temporary licences on harvesting capacity.

Co-management arrangements: no change in status

33.42 Our recommendations concerning co-management arrangements with fishers focussed on the need to clarify the objectives for co-management and, if necessary, to seek legislative change to approve this approach. In addition, the Public Accounts Committee recommended that the Department outline the measures it has adopted to ensure that its use of specified purpose accounts and

financial arrangements adhere faithfully to legislation and policy requirements.

33.43 The Department has not accepted the need to implement these recommendations. Its position is that it has sufficient legislative authority for all of its current co-management arrangements and activities. However, the Department has stated that its specified purpose accounts do not "operate strictly" within Treasury Board policy. The Department has indicated that it is awaiting Treasury Board clarification of its policy subsequent to an internal review.

33.44 The Department is still managing its co-management arrangements in the manner that we observed in 1999. However, it is reviewing its arrangements with fishers and their participation in fisheries management as part of the Atlantic Fisheries Policy Review. Therefore, it is possible that the review will address our concerns.

Science capacity review progress not adequate

33.45 The Public Accounts Committee recommended that the Department conduct an independent, objective assessment of the Department's science capacity and report the results to the Committee by 31 March 2000. The government's response to this recommendation informed the Public Accounts Committee that it would conduct a review using an external independent body. The review would include an overview of science capacity in other countries that have significant fisheries and it would focus on the science required to support the Department's mandate.

33.46 A consultant under contract to the Department's Review Directorate is currently completing the science capacity review. The initial draft review does not meet the government's commitments to the Public Accounts Committee.

33.47 Fisheries and Oceans' Science Branch has informed us that it is also conducting its own review of its stock assessment and other fisheries science capabilities.

The factors contributing to the collapse of cod stocks

33.48 An ongoing project of the Science Branch has been to "identify and weigh the relative contribution of the various components of cod mortality in the years leading to the collapse of the stocks." In the report Accounting for Mortality of Cod in the Canadian Atlantic, the Science Branch concludes that fishing during the years leading to the collapse was very high. Also, it concludes that natural mortality was at least twice the assumed value used in departmental stock assessments. However, in the end, the Science Branch cannot account for roughly one half the total cod mortality during the period that preceded the collapse of the cod stocks.

33.49 The report concludes:

> First, uncertainty is with us to stay, and resource use must be precautionary in light of both an uncertain present and a more uncertain future. Second, monitoring carefully and consistently many aspects of cod stocks, and many parts of ecosystems, is vital to understanding (and sometimes reducing) the uncertainty. Third, we need to integrate our information across stocks, geographic areas, and scientific disciplines, and then apply the integrated insights in scientific advice and resource management.

33.50 We believe that the Department's work on the issue of cod mortality adequately addresses our concerns.

Human Resources Development Canada — A Critical Transition Toward Results-Based Management — 1997, Chapter 17

Assistant Auditor General: Maria Barrados
Principal: Theresa Duk

Background

33.51 In 1997, we reviewed the information provided to Parliament on the results achieved by the Department's two largest programs: the Canada Pension Plan (CPP) and the Employment Insurance (EI) Account. Our audit focussed on two specific activities of Human Resources Development Canada (HRDC) — management of accounts receivable and protection of public funds against fraud and abuse.

33.52 We found that HRDC had made progress in implementing results-based management in the two activities we examined. But we noted that the information it provided to Parliament on the results of the CPP and the EI Account was incomplete.

Scope

33.53 In our follow-up work, we reviewed the progress reports prepared by HRDC in response to our 1997 recommendations and related recommendations of the Standing Committee on Public Accounts. We also conducted interviews and examined relevant documents.

Conclusion

33.54 HRDC has made good progress toward results-based management in the two activities we had examined — managing accounts receivable and protecting public funds against fraud and abuse. However, we strongly encourage the Department to finish developing and implementing harmonized policies and its Departmental Accounts Receivable System in order to improve its results in recovering accounts receivable.

33.55 We found that information to Parliament is still incomplete. HRDC has made little improvement in the annual report on the Canada Pension Plan. And there is no single, comprehensive annual report on the Employment Insurance Account. The Chief Actuary's 1998, 1999 and 2000 reports on employment insurance premium rates are available on demand and can be accessed on HRDC's Web site. However, we believe the tabling of the actuarial analyses of the Chief Actuary would contribute to a better understanding by parliamentarians and the public of some of the factors used in setting premium rates.

33.56 We found that the Department's selected key performance indicators have remained relatively stable over the past three years. However, none of them measure costs and efficiency. Further, the Department needs to take steps to enhance the credibility of performance data.

Human Resources Development Canada (HRDC) has made good progress toward results-based management in managing accounts receivable and protecting public funds against fraud and abuse.

Observations

Management of accounts receivable

33.57 Progress toward fully integrating and harmonizing the management of accounts receivable. In 1997, we recommended that HRDC finish implementing its strategy for integrating and harmonizing the management of accounts receivable.

33.58 Our follow-up found that the Department has made good progress in responding to the recommendations. However, it needs to give high priority to developing and implementing harmonized policies for all accounts receivable. It also

needs to complete as soon as possible its new Departmental Accounts Receivable System (DARS), its accounts receivable sub-ledger. Employment Insurance and Old Age Security accounts receivable are scheduled to be transferred to DARS in 2001–02. About 80 percent of the total value of the accounts receivable portfolio has been transferred to date.

33.59 The Department recently drafted policies for review and approval on key issues in the recovery of accounts receivable such as collecting in cases of hardship and charging interest. The Treasury Board Secretariat's Interest Regulations have provided for the charging of interest on accounts receivable since April 1996. However, the charging of interest on EI and Income Security Programs (ISP) accounts receivable is not scheduled to begin until fiscal years 2001 and 2003 respectively.

33.60 HRDC has made progress in consolidating the management of collection activities and moving it to the Financial and Administrative Services (FAS) Division. However, program staff are still managing a large proportion of EI accounts, despite the fact that a recent analysis showed better cost recovery by specialized FAS collection agents.

33.61 Performance indicators and expectations used for a large proportion of the portfolio's total value. In 1997, we noted that not all key aspects of managing the accounts receivable portfolio had performance indicators and targets. Our follow-up found that HRDC has developed performance indicators for a large proportion of the portfolio's total value and has used the information from them to improve collection practices. It has established objectives for recovery of defaulted student loans, and the EI and ISP accounts, that are managed by its collection centres. However, there are no dollar value targets for recovery of the EI and ISP accounts managed by program staff.

33.62 Enhanced analysis of performance. In 1997, we noted that the Department was not fully analyzing changes in the cost effectiveness of collection activities and the quality of the accounts receivable portfolio. In our follow-up, we noted that HRDC evaluated the cost effectiveness of some collection methods such as using private collection agencies. It analyzed the trends in the aging of accounts receivable and in annual recovery rates, and it investigated the causes of changes in performance. It carried out a review of the portfolio's quality that led to significant write-offs. HRDC has informed us that an automated accounts receivable report it is developing will enable it to conduct more timely and thorough analysis of performance.

HRDC needs to give high priority to developing and implementing harmonized policies for all accounts receivable and to completing as soon as possible its new Departmental Accounts Receivable System.

33.63 Improvements in collection practices. We recommended in 1997 that HRDC strengthen its collection practices in the EI program and ISP in order to make management more results-based. Management informed us, in our follow-up, that collection priorities for both EI and ISP accounts are based on debtor risk and profile. Further, in EI accounts collection, the debtor's assets are considered in assessing capacity to pay. However, this is not the case with ISP accounts. Amounts to be recovered from benefit payments before they are issued to debtors are predetermined by ISP, even if the debtor's assets would permit immediate recovery of the full debt or a large proportion of it.

Unlike those Employment Insurance and Income Security Programs accounts managed by its collection centres, HRDC has no dollar value targets for the recovery of the accounts managed by program staff.

Protection of program integrity

33.64 One of the Department's main objectives is to protect public funds against fraud and abuse — that is program integrity — in order to ensure that payments are made to all those applicants and only those applicants who are entitled to them. HRDC has activities in place to prevent, detect and deter fraud and abuse in the Employment Insurance Program and the Income Security Programs (ISP).

The 1998-99 annual report of the Canada Pension Plan contained minimal information about its mandate, little linking of objectives to strategies, and little comparison of performance with expectations.

33.65 Protecting the integrity of Income Security Programs: Progress in measuring results and defining expectations. In our follow-up, we found that management has made good progress in establishing performance measures and defining expectations for the activities related to protecting the integrity of ISP. However, it has not yet developed a comprehensive single report that compares results with performance expectations. Management informed us that ISP is developing a quality management framework and quality monitoring processes, which are expected to make the management of the programs more results-based.

33.66 Protecting the integrity of the Employment Insurance Program: Improved analysis of performance. In 1997, we recommended that HRDC thoroughly analyze discrepancies between actual and expected results of the Investigation and Control Directorate of the Employment Insurance program and also analyze changes in the cost effectiveness of the investigative methods used. The Directorate is responsible for protecting income benefits payouts, under Part I of the *Employment Insurance Act*, against fraud and abuse. In our follow-up, we found that HRDC is now providing managers with information on the causes of discrepancies between actual and expected results and indicating where corrective action is needed, although the thoroughness of analysis varies. However, HRDC has not assessed the cost effectiveness of each investigative method because it lacks the necessary information on their costs. It has yet to complete other actions cited in its 1997 initial response to this recommendation, namely, a survey of front-line staff and an evaluation study. The evaluation study is now under way, and it is to identify the nature and extent of abuse and misuse of the EI Program. The Department plans to report the evaluation results in 2004.

Information to Parliament

33.67 Little improvement in the annual report of the Canada Pension Plan. In 1997, we recommended that the annual report of the CPP reflect the program's mandate, objectives and strategies. We also said that it should include more future-oriented information and, as soon as available, more complete information comparing performance with expectations. We found that HRDC has made little progress in acting on our recommendation. For example, the 1998-99 annual report contained minimal information about the CPP's mandate, little linking of objectives to strategies, and little comparison of performance with expectations. Further, the report contained little future-oriented information; for example, the impact of the aging population. HRDC is planning to improve the CPP's 1999–2000 annual report.

33.68 No single annual report on the Employment Insurance Account. In 1997, we recommended that HRDC produce a report providing complete, relevant and timely information on the major activities related to the EI Account. The Standing Committee on Public Accounts recommended that the *Employment Insurance Act* be amended to require that HRDC prepare an annual report to the House of Commons on the EI Account. HRDC informed us that information on the Account's activities, results and resource management can be found in its annual departmental performance reports and the reports on plans and priorities. In addition, it indicated that its Web site now provides all relevant information on the EI Account, from various sources. However, the information is fragmented, making it difficult to assess the Account's financial and operational performance. Given the importance of the EI Account, we believe that Parliament would benefit from having all important information available in a single report.

33.69 Chief Actuary's reports of the EI Account are made public. In 1997 we noted that the actuarial analyses necessary for setting the premium rate of the Employment Insurance Account were not tabled in Parliament, unlike those of the Canada Pension Plan. Our follow-up found that they are still not tabled in Parliament. However, HRDC informed us that the Chief Actuary's 1998, 1999 and 2000 reports are available on demand and can be accessed on the Department's Web site. We believe that the tabling of the actuarial analyses of the Chief Actuary would contribute to a better understanding of some of the factors used in setting premium rates.

Results-based management

33.70 The Department's selected key performance indicators have remained relatively stable. In 1997, we recommended that the selected key performance indicators remain in place long enough for the Department to assess performance over time and that the choice of key indicators takes costs into account. We also reported that HRDC needs to ensure the quality of performance data to increase the credibility of the performance indicators.

33.71 We found that the Department's selected key performance indicators have remained relatively stable over the past three years. However, none of them provide information on costs and efficiency. In its response to the recommendations of the Standing Committee on Public Accounts concerning our 1997 chapter, HRDC had agreed to report additional data to Parliament on cost and efficiency so as to provide for a more comprehensive picture of the Department's performance. In this follow-up, we found that costing methodologies were being piloted in the Employment Insurance program and Income Security Programs to establish the cost of processing applications and claims. We also encourage HRDC to take the necessary steps to enhance the credibility of its performance data.

HRDC's selected key performance indicators have remained relatively stable over the past three years. However, none of them provide information on costs and efficiency.

Revenue Canada and Department of Finance — Understanding Changes in Tax Revenues: GST — 1997, Chapter 32

Assistant Auditor General: Shahid Minto
Principal: Jamie Hood

The Canada Customs and Revenue Agency and the Department of Finance have taken many steps to address our recommendations.

Background

33.72 Our 1997 chapter explored whether there were opportunities for Revenue Canada (now the Canada Customs and Revenue Agency) and the Department of Finance to improve their analysis of GST revenue movements. Good analysis can increase the government's ability to identify errors, its awareness of new economic trends and the accuracy of its forecasts of tax revenues, surpluses and net borrowing needs; it can thereby also enhance the credibility of the financial information reported to Parliament. Good analysis of revenue movements would also support the Agency's programs and initiatives to identify tax avoidance techniques used by GST registrants and to note changes in registrant compliance. In 1997 we made a number of observations and recommendations for an appropriate analysis process and use of timely and reliable data for analysis.

Scope

33.73 Our follow-up consisted of reviewing a status report prepared by the Canada Customs and Revenue Agency and the Department of Finance on the actions taken to address our 1997 recommendations. We also reviewed supporting documentation provided to us by both the Agency and the Department, and we held discussions with officials of both organizations.

Conclusion

33.74 The Canada Customs and Revenue Agency and the Department of Finance have taken many steps to address our recommendations. Progress has been made in re-engineering the GST system and implementing the government's move to accrual accounting, but much still needs to be done.

Observations

Following an appropriate analytical process

33.75 In 1997 we recommended that when analyzing GST revenue movements Revenue Canada and the Department of Finance, as a minimum, adjust for bookkeeping errors and distortions caused in using the cash basis of accounting, and then assess the extent to which further analysis is required. We noted in our follow-up that in preparing the revenue reports used for analysis, the Agency now adjusts for the cash basis of accounting by including in the month under review the receipts from the first two banking days of the following month.

33.76 The analysis of revenue is, of necessity, a combined effort. No one unit has all the expertise and information needed for the task. In 1997 we recommended that Revenue Canada ensure a sufficient, proactive, timely and co-ordinated effort by its various units to analyze GST revenue. In its 1999 guide on revenue analysis, the Canada Customs and Revenue Agency briefly described the roles and responsibilities of its units and those in the Department of Finance that perform the analysis of the revenue streams. In the guide the Agency confirmed its Revenue Accounting and Reporting Division as the focal point to co-ordinate the analysis by identifying variances and requesting explanations from other program branches at the head

office. The Agency's guide specifies the thresholds for variances beyond which an explanation is required. These variances and explanations are discussed at the joint Agency/Finance Fiscal Monitor Committee. In addition, information is exchanged outside the formal meeting process.

33.77 Since 1997, there have been a number of improvements in the process used for revenue analysis, including more detailed analysis sheets. However, we noted in our follow-up that the established process is not always followed. Throughout the past year the Division did not receive explanations for all variances that exceeded the thresholds, nor were all the required variances identified for explanation. The Agency informed us that officials exercise judgment in determining variances that need explaining. We believe that revenue analysis could produce more useful and timely information for both organizations if they followed the process more thoroughly.

Having and making appropriate use of reliable and timely data

33.78 Good data are key to analyzing revenue. We recommended in 1997 that Revenue Canada and the Department of Finance continue to work toward improving the reliability and timeliness of the GST data, and make more use of available and reliable data to the extent called for at each step of the analytical process. In this follow-up we noted that the Canada Customs and Revenue Agency is working to re-engineer its various information systems for taxes and duties, starting with the corporate tax system and including a move to standardized accounting. The Agency completed an analysis of the present GST system that identified the operational processes using the GST system, problems in the system and desired enhancements. It is now working on a complex proposal for specific changes to the GST system, but has not set a date for implementation. In the meantime, the Agency has revised its monthly revenue report to include a little more detail from its present system for analysis of GST revenue, and it is working to break down the revenue data in additional ways.

33.79 In 1997 we recommended that Revenue Canada find ways to reconcile the net of GST declared and input tax credits claimed with the net of cash receipts and refunds. The Canada Customs and Revenue Agency now prepares on a quarterly basis a high-level comparison between net GST declared and net cash receipts. The Agency considers that a detailed reconciliation is complex and would require system changes. Along with re-engineering its GST system, the Agency is working on a method to record all its revenue, including the GST, on an accrual basis by the fiscal year 2001–02 as part of the government's overall financial information strategy.

The Agency is working to re-engineer its various information systems for taxes and duties.

33.80 In our 1997 chapter, we recommended that if, after improving the reliability and timeliness of the available information and making better use of it, Revenue Canada and the Department of Finance could still not adequately explain GST fluctuations, they consider requesting additional information from some or all registrants. We noted in this follow-up that both the Agency and the Department are in the early stages of a process that could result in their obtaining additional information from GST registrants in general or in specific sectors, such as financial institutions. They will need to maintain a balance between their need for more information for analysis and compliance purposes and the increased burden it places on registrants to provide the information and on the Agency to capture and store it. The organizations have made no decisions yet on what information to request and how that information will be obtained.

The Agency is working on a method to record all its revenue on an accrual basis by 2001–02 as part of the government's strategy.

33.81 To provide better data for analysis of changes in GST revenue, the organizations have undertaken two long-term projects — re-engineering of the GST system and accrual accounting — and are considering requesting more information from registrants. We urge the organizations to complete these projects as soon as possible to improve the timely analysis of GST revenue.

Revenue Canada — Awarding a Duty Free Shop Licence — 1997, Chapter 36

Assistant Auditor General: Shahid Minto
Principal: Jamie Hood

Background

33.82 In 1997 we reported that Revenue Canada (now the Canada Customs and Revenue Agency) had departed from departmental standards and practices in awarding a duty free shop licence (paragraphs 36.81 to 36.109). We found that the standards and practices used in the award of a particular duty free shop licence differed significantly from those used in other licence awards at land border crossings. For example, there was no national tender call in the award of the initial licence in 1995 or in the new licence issued in 1997. Furthermore, Revenue Canada did not have sufficient information to determine whether the applicants met the qualifications to operate a duty free shop at a land border crossing.

33.83 We were concerned that the precedents set might undermine the transparency and credibility of the process for awarding duty free shop licences. We were also concerned that the licence awards were not consistent with the intent of the Duty Free Shop Regulations that beneficial owners be Canadian citizens or permanent residents.

33.84 The Department responded that the decision to award the licences without recourse to an open tendering process was in full conformity with the law, reflected appropriate judgment in light of the unique circumstances of the case, and in no manner compromised the integrity of the duty free shop program. However, it undertook to award any future duty free shop licence at that site through an open, competitive process. It also undertook to pursue a full review of the Duty Free Shop Regulations, in concert with the Department of Finance, commencing in January 1998.

Scope

33.85 Our follow-up this year consisted of reviewing a status report prepared by the Canada Customs and Revenue Agency on the actions it has taken in response to our audit observation.

Conclusion

33.86 The Office intends to re-examine this matter once the regulatory review is completed.

Observations

33.87 The Agency has informed us that its regulatory review of the duty free shop program is still under way. To date, it has had consultations with key stakeholders about the future of the program, has held information sessions in key centres, and has developed a series of program models for the purpose of comparative analysis.

33.88 The Agency advised us that during the regulatory review, it adopted the practice that all duty free shop licences that expired prior to the completion of the review would be renewed for a maximum one-year term. Therefore, the duty free licence at the land border crossing referred to in our audit observation was renewed for a one-year term that will expire in July 2001. The Agency also advised us that at the end of the one-year extension, it intends to tender the licence unless the results of the regulatory review dictate otherwise or the Minister decides at that time, for other reasons, that a tendering action is not appropriate.

Revenue Canada, Department of Finance and Department of Justice — Interdepartmental Administration of the Income Tax System — 1998, Chapter 5

Assistant Auditor General: Shahid Minto
Principal: Barry Elkin

Some improvement is required in ensuring that procedures designed to protect the tax base are rigorously and consistently applied.

Background

33.89 In our 1998 audit, we reported that, to prevent possible erosion of the tax base, the Department of Finance (Finance), the Department of Justice (Justice) and Revenue Canada (now the Canada Customs and Revenue Agency) needed to work together more effectively in managing two specific areas — threats to the tax base resulting from the appeals process and those resulting from identified deficiencies in tax legislation. Weaknesses in managing these threats can lead to impacts such as loss of tax revenue and/or loss of confidence in the integrity of the tax system.

33.90 We observed that legislative deficiencies were not always corrected on a timely basis. We made a number of recommendations to improve the identification and management of threats to the tax base. These included improving the quantification of amounts at risk, increasing the transparency of settlement agreements, reaching more timely settlement of disputes, and planning better for the use of Justice litigation services.

Scope

33.91 Our observations here are based on interviews and a review of documents provided to us, including the status reports presented by Finance, Justice and the Canada Customs and Revenue Agency on progress in implementing our 1998 recommendations.

Conclusion

33.92 A fundamental structure has been put in place for managing risk to the tax base when dealing with the appeals process. The key elements of this structure include early identification and monitoring of high-risk cases; transparency in settlement agreements; a joint process for ensuring adequate resources for litigation; and consultation to prioritize legislative deficiencies for corrective action. Action has been taken on the majority of our recommendations that deal with these key elements. Some improvement is required in ensuring that procedures designed to protect the tax base are rigorously and consistently applied.

Observations

Determining amounts at risk

33.93 The Canada Customs and Revenue Agency has put in place a process to identify and track high-risk cases, from the notice of objection by the taxpayer through litigation of the case. A case may be classified a high risk because of the amount it involves, or because it challenges important principles of law, tax administration or social programs. A case may also be a high risk when its outcome has a potential impact on other taxpayers with similar issues. High-risk cases are tracked on either an "important issues list" or a "groups list", prepared by Agency headquarters with input from appeals officers in the field. These lists are reviewed by a senior interdepartmental Risk Management Committee, to assess

the risk to the Agency and ensure that appropriate action is taken.

33.94 The amount involved is a major factor in determining whether a case is high risk. In 1998 we noted that appeals officers did not have a clear understanding of how to determine tax at risk. Headquarters has since issued a directive to all appeals officers on how to calculate taxes and interest in dispute and their potential impact on the tax base. However, a post-implementation review of that directive revealed problems in its application. They included difficulties in determining how many related cases existed in the field and the extensive time appeals officers had to spend on complex calculations to determine the amounts involved. An Agency working group will address these concerns in the fall of 2000.

Transparency in settlements

33.95 In 1998 we noted that a settlement is reached in 34 percent of the appeals that proceed to the Tax Court of Canada. Our audit raised concerns about the transparency of these settlements. We observed that Justice prepared written reasons for larger settlements involving more than $12,000 in federal tax. However, it did not always do so for settlements below $12,000. We recommended that Justice complete a reporting letter for all settlements. This was discussed at a Justice regional and headquarters management meeting in May 1998. It was agreed that a brief reporting letter would be prepared for all settlements under $12,000, and that managers would communicate this requirement to their staff. Justice has not yet updated its standards of service to reflect the need to prepare a reporting letter for all settlements it proposes to the Canada Customs and Revenue Agency.

Reaching agreement earlier

33.96 In 1998 we found that the principal reason for reaching settlements was the provision of new information by the taxpayer. As each step in the dispute resolution process took additional time and effort from Revenue Canada and the Department of Justice, we recommended that Revenue Canada promote earlier disclosure of information by taxpayers. In response to that recommendation, the Canada Customs and Revenue Agency is piloting an "enhanced acknowledgement letter," to be sent to the taxpayer within 30 days after an objection is filed. In the letter, the appeals officer requests specific documents and information to help support the taxpayer's position, where appropriate. It is hoped that this will expedite a dialogue with the taxpayer about the objection. At the time of our follow-up, the enhanced acknowledgement letter was being used at 12 pilot locations and expansion of its use to all appeals locations was expected by December 2000.

33.97 In 1998 Revenue Canada was considering techniques of alternative dispute resolution (ADR) to facilitate earlier resolution of taxpayer disputes. ADR normally allows the use of mediation, negotiation or arbitration to settle disputes. We expressed concern that without appropriate transparency safeguards, there could be increased risk of compromise solutions that were inconsistent with the law. The Canada Customs and Revenue Agency has acted on our concerns and is proceeding with mediation at the objection stage in one pilot location only. It plans to assess the effectiveness of this technique before proceeding further.

Improving the administration of the dispute resolution process

33.98 In 1998 we made several recommendations to facilitate the administration of the dispute resolution process. We recommended that Justice and Revenue Canada plan better for the use of Justice litigation services. Since that time, a computerized case management and resource-tracking system called Caseview has been implemented in

The amount involved is a major factor in determining whether a case is high risk.

The Department of Justice has not yet updated its standards of service.

all Justice tax litigation offices. The Caseview reports are used in a national planning exercise to review the use of litigation resources and project resource needs for the coming year. This exercise includes consultation with the Appeals Branch of the Canada Customs and Revenue Agency. In addition, Justice is developing a protocol for managing large cases that involve a team of lawyers. This should strengthen planning and ensure that funds are available for major litigation.

33.99 We noted in 1998 that Justice lawyers located in tax litigation offices did not have access to the database of legal opinions maintained by Justice Legal Services at Revenue Canada headquarters. We said that access to those opinions would improve efficiency and consistency in preparing for litigation. Justice has since informed us that the confidential and sensitive nature of the information would make it too costly or inefficient to develop a secure common link between it and the Agency. It has explored an alternative, which would involve transferring relevant opinions to the Justice intranet site. This option has also been hindered by security concerns. Management has stated that it is a priority to obtain the necessary security to make the intranet a viable tool for sharing legal opinions and other sensitive information.

Transferring relevant opinions to the Department of Justice intranet site has been hindered by security concerns.

33.100 We observed in 1998 that there were often delays at Revenue Canada in deciding whether to pursue appeals filed to the Federal Court of Appeal from adverse decisions by the Tax Court of Canada. We noted that the final decision to proceed with the appeal had to be made by the Policy and Legislation Technical Sub-Committee. In response to our observation, the Sub-Committee has been meeting more often. When a particular case cannot be discussed at one of the meetings, documents are circulated and members asked to provide their views.

Prioritizing legislative deficiencies for corrective action

33.101 In 1998 we noted cases where Finance, in the face of significant risk to the tax base, had moved quickly to introduce legislative change. We noted other situations where Finance had been slow to act. We recommended that it regularly consult the interdepartmental committee of assistant deputy ministers for advice on which deficiencies should be given priority for corrective action.

33.102 Since 1998, the interdepartmental committee that represents the Agency, Justice and Finance has met regularly to discuss legislative priorities. For example, the committee was instrumental in recommending the inclusion of third party penalties in the 1999 Budget and harassment protection for Agency collectors in the 2000 Budget, among other items. These were high-priority issues for the Agency.

33.103 The committee also plays a supervisory role in directing priorities for technical changes, supplemented by meetings at the working level. The work in this regard has led Finance to release a package of draft technical amendments in November 1999; a motion to implement them was tabled in the House of Commons on 5 June 2000.

33.104 In 1998 we noted a number of constraints to proposing legislative change, such as the overburdened agenda of Parliament, the need to consult with stakeholders, and limits on the volume of legislative change that can be absorbed by taxpayers and tax practitioners. Given these constraints, it is important that current procedures be maintained to secure the views of the Agency and Justice on prioritizing legislative deficiencies for corrective action.

Population Aging and Information for Parliament: Understanding the Choices — 1998, Chapter 6

Assistant Auditor General: John Wiersema
Director: Basil Zafiriou

Background

33.105 Canada's population is aging. The proportion of the total population who are elderly will grow sharply during the second and third decades of this century, as successive waves of baby boomers reach age 65. By the year 2030, Canada's elderly will represent 22 percent of the total population, compared with just over 12 percent at present. Today, for every Canadian 65 years or older, there are five of working age; in three decades, there will be half as many.

33.106 This demographic shift, a product of the high fertility of the early postwar years and the rising life expectancy of Canadians, has far-reaching implications for our economy and our public finances. In particular, an aging population implies increasing pressures on government spending, stemming from higher pension payments and increased demands for health care services. At the same time, given existing employment patterns, the growth of the labour force will slow to a crawl, reducing the rate of economic growth and hence the rate of growth in government revenues as well. Together, these forces can put enormous pressures on government finances when their impact begins to be felt in 10 years or so, particularly if our debt burden and tax levels remain high.

33.107 Chapter 6 of our 1998 Report sought to illustrate the fiscal implications of the impending demographic shift and to draw attention to the need for a long-term perspective on budget planning. We contended that the government ought to produce long-term financial projections to help parliamentarians and the public gain a better appreciation of the fiscal challenges looming ahead. We pointed out that several other advanced countries are already doing this.

Scope

33.108 For this follow-up, we reviewed recent Budget documents, the fall fiscal update of the Minister of Finance over the past three years, and analyses and studies of demographic issues prepared by the Department of Finance.

Conclusion

33.109 The government's budgetary process has become more forward-looking since we reported in 1998. The Budget planning framework remains at two years. But in its fall fiscal update, the Department of Finance now provides five-year forecasts of revenues and expenditures, based on an average of private sector forecasts. Extending the fiscal outlook from two years to five is an important step in the right direction, but still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

Extending the fiscal outlook from two years to five is an important step, but still falls short of what is needed to show the impact of the demographic shift one to three decades ahead.

Observations

The Standing Committee on Public Accounts endorsed the need to report information on the fiscal implications of population aging

33.110 The House of Commons Standing Committee on Public Accounts held hearings on our 1998 chapter in June 1998; the Auditor General and the Deputy Minister of Finance appeared as witnesses. In a report tabled on 8 October 1998, the Committee stressed the importance of taking demographic trends into account in budget planning, and called on the Department of Finance to devise appropriate means for the government to "disseminate long-term

demographic and fiscal information that would ensure transparency and greater understanding of the issue."

33.111 In its response to the Committee, the Department of Finance noted that the government's two-year rolling budget plans had been effective in lowering the debt-to-GDP ratio, and argued that long-term projections could undermine "the importance and urgency of addressing immediate problems." However, the Department did leave the door open for such projections at some later date, once the government had accumulated more annual surpluses and there was less political and media focus on short-term targets.

Budget decisions continue to be made within a two-year planning horizon, but the longer fiscal outlook now provides additional context for viewing and assessing the government's targets.

The budgetary process has become more transparent and forward looking

33.112 The government's approach to budget planning has been to set two-year rolling fiscal targets and to balance the budget or maintain a small surplus, so that the debt-to-GDP ratio will remain on a permanent downward track. With the *Economic Statement* released last October, the Minister of Finance introduced a new element in the government's Debt Repayment Plan. From now on, the Minister said, each fall the government will announce whether more of that year's surplus should be used for debt repayment, depending on the circumstances at that time.

33.113 To ensure that its budget targets are met, the government sets aside a $3 billion "contingency reserve" to cushion against unforeseen developments. The targets also contain an additional "prudence" factor to allow for the risk of higher-than-expected interest rates or lower economic growth. In the past, this prudence was embedded in the Budget forecasts; that is, the projected revenues were lower and expenditures higher by the amount of the prudence factor. Beginning with the *Economic and Fiscal Update* of November 1999, this extra prudence is shown explicitly in the Budget forecasts.

33.114 Also for the first time, the 1999 *Economic and Fiscal Update* provided five-year forecasts of government revenues and expenditures, based on an average of private sector forecasts. Budget decisions continue to be made within a two-year planning horizon, but the longer fiscal outlook now provides additional context for viewing and assessing the government's targets. Nevertheless, five-year projections confine the fiscal outlook to a period when the demographics remain favourable. They do not capture the effect of the sharp increases in the elderly population that will occur during the second and third decades of this century.

Canada's fiscal condition has improved, but the need for information on the long term remains

33.115 Canada experienced a remarkable turnaround in its fiscal condition over the past three years. After nearly three decades of continuous deficits and mounting debts, the government recorded small surpluses in 1997–98 and 1998–99, and a much larger surplus — $12.3 billion — last year. Additional surpluses are projected over the next several years as well.

33.116 The improved fiscal condition strengthens our ability to establish structures that can withstand the demographic pressures looming ahead. This requires information on how serious those pressures are. The Department of Finance has been conducting extensive research on demographic trends and analyzing their economic and fiscal implications. It reports the results of that work in departmental publications and at various professional meetings attended by Finance officials. This work is not easily accessible to non-specialists, however. Thus, there is still a need for the government to translate this technical work into clear long-term projections of Canada's fiscal prospects and to report them to Parliament, either as part of the annual budget presentation or during pre-budget consultations in the fall.

Federal Laboratories for Human and Animal Health Building Project — 1998, Chapter 7 and Canadian Security Intelligence Service — National Headquarters Building Project — 1996, Chapter 8

Assistant Auditor General: David Rattray
Principal: Hugh McRoberts

Background

33.117 In April 1998, we reported to Parliament on the Federal Laboratories for Human and Animal Health Building Project located in Winnipeg, Manitoba, now called the Canadian Science Centre for Human and Animal Health (CSCHAH). In May 1996, we reported to Parliament on the National Headquarters Building Project of the Canadian Security Intelligence Service located in Ottawa, Ontario. Overall, both audits concluded that the projects were successfully implemented. However, stronger management and control practices would have reduced costs to the Crown. The facilities also contained space exceeding program requirements. In summary, our observations and recommendations were aimed at addressing several key issues. These included:

- ensuring that surplus space capacity in both facilities is fully utilized;
- strengthening the roles and reporting relationship of the Biosafety Offices in Health Canada and the Canadian Food Inspection Agency;
- strengthening the Treasury Board Secretariat's project monitoring role; and
- strengthening certain management, control and contracting practices of Public Works and Government Services Canada for planning and delivering future major Crown projects.

33.118 On 4 June 1998, the Standing Committee on Public Accounts held a hearing on the results of the audit of the Canadian Science Centre for Human and Animal Health, and a report was tabled in the House of Commons on 21 October 1998. The report reaffirmed the audit recommendations and stressed the need for all departments and agencies to do everything in their power to rectify the problems and deficiencies noted in our 1998 Report. The Public Accounts Committee also requested that Health Canada prepare a plan to address the issue of space utilization at the Winnipeg facility and urged the Auditor General to review the plan. On 18 March 1999, the Minister of Health tabled a government response to the seventeenth report of the Standing Committee on Public Accounts. On 28 April 1999, the Deputy Minister of Health Canada provided the Public Accounts Committee with a copy of the "Overview of the Health Canada Winnipeg Laboratories Plan", together with the Auditor General's comments thereon.

Scope

33.119 This follow-up is largely based on discussions with departmental, agency and Treasury Board officials on progress since the audits, written assertions they have made in this regard and a review of supporting documentation. Our work also included visits to both facilities as well as to Health Canada's other laboratory facility in Winnipeg.

Conclusion

33.120 The departments and agencies concerned have taken action on most of the audit recommendations and observations. However, several important issues remain that need to be addressed

The departments and agencies concerned have taken action on most of the audit recommendations and observations.

Several important issues remain that need to be addressed more rigorously by senior management.

more rigorously by senior management. First, there is the question of optimizing the use of laboratory space in Winnipeg. While there has been a significant increase in the approved number of positions at the Canadian Science Centre for Human and Animal Health compared with the number of staff originally planned, many key scientific and management positions remain unstaffed. Furthermore, since our audit, there has been a high turnover of the facility's key program management personnel. At the time of our field work, senior laboratory officials estimated that more than 50 percent of the Centre's potential was not being realized. We also noted that Health Canada is using only 30 percent of available laboratory space at its other facility in Winnipeg.

33.121 At the time of our field work, the Treasury Board Secretariat considered that the level of project monitoring it was performing for major Crown projects was appropriate. The Secretariat maintained that it provided Treasury Board ministers with reasonable assurance that departmental submissions and progress reports comply with policy in all material respects. Both audits, however, identified significant deficiencies in the completeness and accuracy of information submitted for project and funding approval by the Treasury Board. The Treasury Board Secretariat has recently informed us that it is currently reviewing its monitoring role and methodology to ensure an appropriate level of oversight.

33.122 Over the last two years, Public Works and Government Services Canada has initiated several strategies to improve project delivery. However, we are concerned that the Department has not yet resolved the long-standing issue of clearly defining what constitutes "design errors and omissions", assigning responsibilities for managing each, and incorporating them in project contracts. The Department also needs to intensify its efforts to introduce meaningful incentives in contractual agreements for reducing project costs or, at the very least, introduce measures that will remove disincentives to cost reduction.

Observations

Excess capacity

33.123 Winnipeg laboratories. In April 1998, we reported that the constructed space in the Canadian Science Centre for Human and Animal Health Building exceeded approval and requirements, with no strategy to optimize use. We noted that about 70 positions remained to be filled, comprising 40 percent of the staff that the client departments had originally planned for the facility. We recommended that the departments conduct a space utilization study of the new facility to determine how much surplus space was available and develop a comprehensive business plan and strategy to ensure that its capacity would be fully used. We also reported that Health Canada had another laboratory facility in Winnipeg that was built in 1987 at a cost of about $12 million. We noted that the facility included a chemical containment laboratory that had never been commissioned or operated.

33.124 Health Canada and the Canadian Food Inspection Agency have informed us that a space utilization study has been initiated. The development of a comprehensive business plan for the CSCHAH facility was also in the conceptual planning phase; however, it has been delayed and placed on hold while Health Canada completes its realignment and transformation exercise that is expected to be completed by spring 2001.

33.125 Since our 1998 Report, we noted that several new Health Canada programs have emerged, such as the Blood and Food Safety initiative. Other options are being considered that could generate new space requirements for the Winnipeg laboratories. As at 20 June 2000, Health Canada officials in Winnipeg had

identified an urgent need for 182 positions, which represents an increase of about 50 percent compared with the number of staff Health Canada had originally planned for the facility. We noted, however, that 56 positions had not been staffed. Staffing actions were under way for 42 positions while 14 positions were on hold pending availability of funding and senior management's approval. We also noted that the Bureau of Microbiology has been without a permanent Director since October 1999, and there have been many vacant positions in key scientific programs. The Department informed us that a permanent Director for the Bureau of Microbiology has been hired effective October 2000, at which time extensive planning of program development and assessment of space utilization will be given a high priority.

33.126 The other laboratory facility in Winnipeg is a two-storey building comprising a total gross area of over 5,900 square metres. The facility was completed in October 1987 with annual operating costs of about $450,000. Health Canada informed us that the building is a multi-purpose facility. The office part of the building is currently used at 60 percent capacity and the chemical laboratory part of the building is being used at 30 percent capacity. According to Health Canada officials, the unused capacity of this laboratory has been and continues to be reviewed as part of the overall study of regional and program laboratory needs. Progress on completing this study has been complicated by the continuing discussions on the transfer of the regional laboratories in Dartmouth, Nova Scotia and Burnaby, British Columbia to the Canadian Food Inspection Agency.

33.127 Level 4 laboratories. On 28 April 2000, the ministers of Health and Agriculture and Agri-Food announced jointly that the Canadian Science Centre for Human and Animal Health received the clearances necessary to begin work on a number of critical, highly infectious diseases. At the time of our field work, Health Canada had begun its level 4 program that studies some of the most deadly viruses known. Health Canada has two research scientists and a senior technician trained in working with level 4 viruses. The Department hopes to hire two additional research scientists and another highly skilled technician by the end of the year.

Health Canada has begun its level 4 program that studies some of the most deadly viruses known.

33.128 The Canadian Food Inspection Agency plans to develop a level 4 program using a phased-in approach following the initial experience with level 4 operations in Health Canada. However, the Agency plans to use its level 4 laboratory only as needed, subject to the Animal Health program requirements.

33.129 Canadian Security Intelligence Service (CSIS) building. In May 1996, we reported that since the start of construction, CSIS had been subject to government budget cuts and staff reductions that resulted in underutilized office space. In the latter part of 1996, CSIS completed a space utilization survey of the national headquarters complex that resulted in better use of areas within the building. Since then, increased staffing for new operational initiatives and requirements to satisfy new technologically driven needs have consumed all the spare office capacity. At the time of our field work, the number of people working in the building exceeded design occupancy detailed in CSIS accommodation documents.

33.130 CSIS is currently studying alternatives to provide additional office accommodation within its national headquarters building.

Laboratory safety functions

33.131 In April 1998, we reported that the roles and responsibilities of Health Canada's Office of Biosafety and the Biohazard Containment and Safety Unit in the Canadian Food Inspection Agency needed to be strengthened. We

recommended that these offices needed to be independent of program managers in order to minimize any real or perceived conflict of interest. We also suggested that these offices systematically review all laboratories dealing with infectious agents and formally attest that the relevant biosafety guidelines are being followed.

33.132 Since the audit, the independence of the safety offices has been strengthened and further action is planned. Health Canada's Office of Biosafety now reports to the Executive Director of the Emergency Services Centre within the new Population and Public Health Branch. The Biohazard Containment and Safety Unit of the Canadian Food Inspection Agency now reports directly to the Executive Director, Laboratories Directorate. Plans are also under way to strengthen the Office of Safety and Environmental Services in CSCHAH by hiring two additional experts in containment safety.

We believe that the Treasury Board Secretariat needs to be more proactive and systematic as it reviews project submissions and as projects are ongoing.

33.133 Health Canada informed us that it is pursuing the issue of strengthening the overall system of certifying and monitoring laboratories that deal with infectious agents. This is being done in conjunction with the movement of the Human Pathogens Importation Regulations (HPIR) to the new *Canada Health Protection Act*. It is anticipated that the new Act, together with changes to the HPIR, will better articulate the responsibility to formally attest that all laboratories handling infectious agents are following relevant biosafety guidelines. A memorandum of understanding is also being developed with the Biohazard Containment and Safety Unit of the Canadian Food Inspection Agency to clarify and define the respective roles for the control of pathogens affecting both humans and animals. These initiatives are expected to be completed sometime in 2001.

Treasury Board Secretariat

33.134 The Treasury Board Secretariat states that its primary role in the planning and implementation of capital projects is to provide a high-level strategic policy framework within which departments and agencies are responsible and accountable for results. The Secretariat asserts that it has been monitoring departmental compliance with the intent and the specifics of the relevant policy through the review of project approval submissions and project progress reports. The Secretariat maintains that it provides Treasury Board ministers with reasonable assurance that departmental submissions and progress reports comply with policy in all material respects. At the time of our field work, it considered that the level of project monitoring was appropriate, given available resources and that significantly increasing monitoring levels would be neither cost-effective nor affordable.

33.135 We agree with the Treasury Board Secretariat that its roles and responsibilities should complement rather than duplicate work done by departments; they should focus on providing broad direction and leadership in government rather than dealing with transactional matters. We also concur that departments are ultimately responsible and accountable for results. However, our audits identified several material instances of departmental non-compliance with policy, which the Secretariat did not detect. We believe that the Secretariat needs to be more proactive and systematic as it reviews project submissions and as projects are ongoing. In our opinion, the strength of the Secretariat's monitoring role should depend on the circumstances. A few critical variables could determine the extent to which the Secretariat should play a stronger role. These might include, for example, public safety, cost, level of risk, degree of political sensitivity, and degree of change/innovation.

33.136 In summary, we believe that the Treasury Board Secretariat has a real role in expenditure management relating to major Crown projects. There are many activities it can undertake that would not duplicate work already done by departments and that would support its own overall responsibilities. We reaffirm our belief that the Secretariat needs to strengthen its monitoring role so that it can indeed provide ministers with reasonable assurance that departmental submissions comply with policy. A stronger, more involved role by the Secretariat in future major Crown projects would help prevent many of the problems identified in our past audits of Crown projects. The Treasury Board Secretariat has recently informed us that it is currently reviewing its monitoring role and methodology to ensure an appropriate level of oversight.

Project management

33.137 The 1996 and 1998 audits contained several recommendations aimed at strengthening the way that Public Works and Government Services Canada manages and controls Crown projects. For example, we recommended that the Department tailor consultant contracts to specific projects and that it improve its monitoring of contractor performance. We also recommended that the Department clarify the definition and responsibility for design errors and omissions and that it revise its contracting practices to provide incentives for cost savings within approved budgets but without compromising project objectives.

33.138 Since our audits, the Department has initiated several strategies to improve project delivery. For example, it has developed a National Standard template for contracts and requests for proposals to ensure a consistent approach to requests for proposals and contracts. The template captures specific requirements and expectations at the beginning of the project so that deliverables are clear and precise and costed accordingly. The Department has also formalized a Procurement and Risk Management process to identify potential risks and contract allowances prior to seeking contract approval on both consultant and construction contracts. The process encompasses reviewing the upcoming project, identifying potential risk areas, preparing a risk response and identifying the potential impact on the project from both a monetary and delivery perspective. Formal training has been provided to staff involved in this process and is ongoing on a national basis. A Change Order Centre and a Claims Prevention Management group have also been established to assist project managers with project issues, including claims and disputes.

33.139 The Department has informed us that it has had some discussions with the consultant industry and their insurance companies on clearly defining what constitutes design errors and omissions and introducing meaningful incentives for reducing costs where feasible. The insurance companies have committed to provide a definition of errors and omissions that would open discussions on including this definition in the contract documents of Public Works and Government Services Canada. However, a time frame has not been established for these potential discussions. The consultant industry does not agree that incentives can be introduced in a meaningful way without compromising project objectives. In early 1999, the Deputy Minister of Public Works and Government Services suggested that the issue be investigated further to identify a solution that would be agreeable to all parties.

Public Works and Government Services Canada has initiated several strategies to improve project delivery.

Promoting Integrity in Revenue Canada — 1998, Chapter 15

Assistant Auditor General: Shahid Minto
Principal: Jamie Hood

Background

33.140 The success of Revenue Canada's (now the Canada Customs and Revenue Agency) tax, transfer payment, customs and trade administration functions depends primarily on the voluntary compliance with the applicable laws by individuals and businesses. One of the many factors affecting the likelihood of voluntary compliance is the way individuals and businesses perceive the conduct of Revenue Canada's staff. An organization like Revenue Canada, with its decentralized operations and the extensive exercise of judgment by employees, must take adequate precautions to minimize the risk of employee misconduct.

33.141 In Chapter 15 of our 1998 Report, we looked at various means that the Department employed to promote integrity among its employees. We found that Revenue Canada had the foundation for the promotion of integrity, but there were areas for improvement that would help it to reinforce and build on that sound foundation. We made a number of observations and recommendations about training, corrective action, information for staff, the application of discipline, monitoring of staff knowledge of expected conduct, and creation of a position of ethics advisor.

Scope

33.142 Our follow-up consisted of reviewing the status report prepared by the Canada Customs and Revenue Agency on its progress on our recommendations, reviewing supporting documentation and holding discussions with its officials.

Conclusion

33.143 The Agency is making good progress; however, to date, few recommendations are fully implemented. The Agency is improving information to staff, taking a more preventive approach to misconduct and establishing monitoring programs in areas more vulnerable to misconduct. The security handbook was revised in April 1999 and is now available electronically to staff ; the Code of Ethics and Conduct and discipline policy were revised in September 2000. The Agency plans to issue a single reference document on ethical behaviour with the revised Code of Ethics and Conduct. An orientation manual, available electronically to all employees, also addresses the issue of conduct. In addition, the Agency is in the process of reviewing the role of an ethics advisor. Further, it is planning to monitor disciplinary sanctions and to develop a system to monitor staff knowledge of expected conduct.

The Canada Customs and Revenue Agency is making good progress, however, few recommendations are fully implemented.

Observations

Application of discipline

33.144 To obtain the maximum deterrent effect, it is necessary that disciplinary action be applied fairly and consistently and in a timely manner. In 1998, the departmental guidelines on discipline dated from before the 1994 administrative consolidation of Revenue Canada. A consolidated discipline policy was distributed effective with the creation of the Canada Customs and Revenue Agency in November 1999. This policy was recently revised.

33.145 At the time of our 1998 audit, Revenue Canada was planning to capture

information on all disciplinary actions, analyze it and report on it to senior management. As the first step in this process, the revised discipline policy requires that a copy of each notice of disciplinary action be sent to Corporate Staff Relations and Compensation. At the time of our follow-up, the Agency had not started capturing or analyzing the data.

33.146 During our 1998 audit, we found that in 45 percent of the cases we reviewed with no grievances, final disciplinary action was imposed more than 30 days after completion of the investigation of misconduct. We recommended that Revenue Canada study the disciplinary process to increase the proportion of cases in which the final discipline is imposed within 30 days of completing the investigation. The 2000 revised discipline policy states that it is imperative that the delegated manager take timely disciplinary action and make every reasonable effort to render disciplinary action within 30 working days of the conclusion of the investigation. The Agency is planning to monitor disciplinary sanctions and analyze the factors that inhibit the timely imposition of discipline. It plans to eliminate, where possible, practices that prevent the speedy imposition of disciplinary sanctions.

Taking corrective action

33.147 In addition to taking disciplinary action for misconduct, it is often necessary to correct weaknesses in security, procedures or training. In 1998 we found that while management's responses to rectify observed weaknesses were for the most part appropriate, at times the responses were very slow and narrowly focussed. We recommended that for those incidents that have significant national implications, Revenue Canada ensure that remedial action is applied to all organizational units that are at risk.

33.148 In this follow-up, we noted that the Agency is becoming more proactive in detecting and preventing misconduct. Investigation reports on misconduct include a section on procedural deficiencies and are sent to the applicable head office functional area for their information and action. In addition, as a result of trend analysis, senior management has given security officials the mandate to monitor the use of electronic networks and to establish a fraud detection program.

The Agency is becoming more proactive in detecting and preventing misconduct.

Information for staff

33.149 Information is important not only in permitting the Agency to correct systemic weaknesses but also in conveying the Agency's expectations to individual employees. In 1998 Revenue Canada was updating the standards of conduct and security booklets. The security booklet was revised in April 1999 and is available electronically. At the time of our follow-up, the standards of conduct booklet, now the Code of Ethics and Conduct, had been revised. The revised code links expected conduct with corporate values using plain language. It provides reasons for and situational examples of expected behaviour.

33.150 We recommended in 1998 that Revenue Canada provide information on values and conduct to its employees in the form of a brief, easy-to-understand overview ethics document. The Agency plans to issue a single reference document with the revised Code of Ethics and Conduct.

The revised Code of Ethics and Conduct links expected conduct with corporate values using plain language.

Ethics training

33.151 Providing written information is not a sufficient strategy on its own to ensure that employees understand what is expected of them. This strategy needs to be supplemented by training. During our 1998 audit, we found that most employees interviewed had received some formal training on ethics; however, the training coverage was uneven and was conducted on a program-by-program basis. We recommended that Revenue Canada

ensure that all new employees are given uniform training on departmental values and standards of conduct and that veteran employees are given uniform refresher training at appropriate intervals on departmental values and standards of conduct.

33.152 In this follow-up, we noted that the Canada Customs and Revenue Agency has implemented an electronic self-study orientation manual for all employees. This manual has also been used in formal orientation programs. The manual contains information on the mission, vision and core values of the organization as well as employee responsibility and conduct. The Agency has also developed the learning framework for a multi-year leadership program planned for experienced and newly appointed managers. This program will focus on leadership consistent with the core values of the Agency and of the Public Service.

33.153 Following the distribution of the revised Code of Ethics and Conduct, managers will be required to conduct employee awareness sessions, at which staff will be able to discuss the policy and their responsibilities.

The Agency is still studying the merits of creating the position of ethics advisor.

Monitoring staff knowledge of expected conduct

33.154 Providing information and training to employees does not guarantee that they will understand and do what is expected of them. During our 1998 audit, we found that Revenue Canada had taken few steps to determine the level of employees' understanding of the standards of conduct. We recommended that Revenue Canada monitor employee knowledge of the Department's expectations for conduct, through the use of staff surveys or other suitable means.

33.155 Following the distribution of the revised Code of Ethics and Conduct and discipline policy, the Agency plans to develop a process to assess employee knowledge of Agency expectations. However, at the time of our follow-up, the Agency had not yet started to develop this process.

Reporting incidents of misconduct

33.156 There are two reasons why employees may not report incidents of misconduct. First, they may lack information on what and to whom to report; second, their working environment may not be supportive of such reporting — especially if their supervisor or other higher-level co-worker were exhibiting the inappropriate behaviour. The revised Code of Ethics and Conduct emphasizes that if employees have any doubts on what and to whom to report, they are to seek guidance from their manager.

33.157 In 1998 we recommended that Revenue Canada study the merits of creating the position of ethics advisor, whom all departmental employees could consult on questions of values and conduct. At the time of our follow-up, the Agency was still working on this study.

Management of the Social Insurance Number — 1998, Chapter 16

Assistant Auditor General: Maria Barrados
Principal: Theresa Duk

Background

33.158 In our 1998 audit of the management of the Social Insurance Number (SIN), we made a number of observations and recommendations. They focussed on the importance of the SIN, processing and control of the SIN, integrity of data in the Social Insurance Register (SIR), investigations of fraud and abuse related to the SIN, impacts on other users, and the legal and policy framework for managing the SIN.

Scope

33.159 Our follow-up examined reports by Human Resources Development Canada (HRDC) on its progress in implementing our recommendations. Also, we discussed with HRDC officials action plans for upcoming initiatives.

Conclusion

33.160 After our 1998 audit, the government took several measures to improve the management of the SIN. HRDC improved the integrity of the SIR by adding new information about deaths and flagging inactive SINs. It also increased the number and quality of SIN investigations. These measures were implemented within HRDC's current operational framework. Other measures planned will further improve the integrity of the SIR and inform Canadians about the purpose of the SIN and how it is to be used. HRDC is planning to request additional funding for these last measures. All these measures, both implemented and planned, fall within the current legal and policy framework for managing the SIN.

33.161 Our follow-up reports on progress made to date. It also indicates the issues we believe will require the most government attention to complete implementing our recommendations.

33.162 The management of the SIN is an important public issue that has attracted the attention of two parliamentary standing committees. Given that the government has not yet implemented all of our 1998 recommendations, we believe that a second follow-up is necessary.

Observations

Much work has been done since our 1998 audit

33.163 In response to our 1998 audit, the government, under the leadership of HRDC, developed an action plan and set up five working groups to study the implementation of our recommendations. Also, the Standing Committee on Public Accounts and the Standing Committee on Human Resources Development and the Status of Persons with Disabilities held several hearings to examine issues from our audit and tabled their reports. In June and December 1999, the government responded to those reports.

HRDC took steps to improve the integrity of the Social Insurance Register

33.164 HRDC reports that it improved the integrity of data in the SIR by comparing it with Canada Pension Plan and Old Age Security databases. This process validated the identities, deactivated the files and recorded the deaths of a number of SIN holders. According to the Department, some 5.4 million SINs were updated. Also, HRDC also reports that it put in place mechanisms to update SIR data regularly.

Human Resources Development Canada reports that it improved the integrity of data in the Social Insurance Register by comparing it with Canada Pension Plan and Old Age Security databases.

33.165 Departmental efforts have already improved the reliability of the SIR. HRDC reports that nearly 3 million SINs have been marked "inactive" or "deceased". The gap of 3.8 million that existed in 1998, between the number of active SINs and the number of people aged 20 or over, has been reduced to approximately 800,000. The Department also reports that the number of active SINs held by people aged 100 or over has dropped from 311,000 to 8,000. In 275,000 other cases, the birth date of the SIN holder has been corrected.

HRDC has increased the number of investigations of SIN fraud and abuse

33.166 HRDC developed an action plan containing four initiatives to deter SIN fraud and abuse:

- develop new fraud prevention and detection programs;
- improve the integrity of data in the SIR by investigating possible fraud and abuse;
- introduce measures to increase the number and improve the quality of SIN investigations; and
- improve communication with federal departments and agencies, other levels of government and the private sector.

33.167 The Department has begun to implement this action plan but has indicated its needs for additional resources. For the moment, HRDC reports that a new investigation unit dedicated to the SIN has tripled the number of SIN investigations over last year. HRDC is also pursuing discussions with Treasury Board to redefine its performance indicators in this area.

Other initiatives are under way

33.168 Other initiatives are under way in response to our 1998 audit recommendations. For example, HRDC is consulting with provincial and territorial agencies to obtain information on births, deaths and name changes more easily. This would make it possible to validate the information needed to issue a SIN, and prevent entering false data into the SIR. Also, the Department is developing a way to better control the risks associated with issuing temporary SINs. Finally HRDC, in cooperation with its partners, is preparing an education campaign aimed at SIN holders and users. HRDC states that the completion of these initiatives depends on additional resources being obtained.

A comprehensive study on the impact and extent of use of the SIN is needed

33.169 In 1998, we recommended that the government assess the impact and extent of use of the SIN. To date, HRDC, Industry Canada and Statistics Canada have held consultations on how to best measure the impact and extent of public and private sector use of the SIN. Their results are to be published in the fall of 2000. In our view, the departments need to complete a comprehensive study and publish the results as soon as possible.

Roles, objectives and use of the SIN

33.170 In its fourth report, the Standing Committee on Human Resources Development and the Status of Persons with Disabilities recommended creating legislation to regulate the use of the SIN. Also, it asked HRDC to prepare a report on options to improve or replace the SIN system.

33.171 In December 1999, the government provided the Committee with a report that set out three options:

- improve the management of the SIN within the current legal and policy framework;
- enact legislation that restricts the use of the SIN; and
- create a national identification system.

After briefly analysing the options, the government concluded that by adopting administrative improvements and enforcing the *Personal Information Protection and Electronic Documents Act*, its present policy was still valid. It also rejected the option of creating legislation to restrict the use of the SIN.

33.172 Since our 1998 audit, much has been said and written about the management and future of the SIN. However, we believe that only the results from the study on impact and use of the SIN, when published, (see paragraph 33.169) will provide essential information to help government and parliamentarians make sound decisions about the future of the SIN, the advisability of restricting its use, data matching and privacy protection. We believe that a more in-depth analysis of SIN options is needed. It would help parliamentarians to fully understand the practical, economic, and political implications of different options. Such an analysis would provide parliamentarians with the information to determine the stakes, as well as the advantages and disadvantages of each option.

We believe that a more in-depth analysis of SIN options is needed to help parliamentarians to fully understand the practical, economic, and political implications of different options.

Financial Information Strategy — 1998, Chapter 18 and 1999, Chapter 21

Assistant Auditor General: John Wiersema
Director: David Willey

Background

The April 2001 deadline to implement the Financial Information Strategy (FIS) is approaching rapidly.

33.173 The April 2001 deadline to implement the government's Financial Information Strategy (FIS) is approaching rapidly. Under FIS, the government is introducing accrual accounting; putting into place modern financial systems that support this new basis of accounting; and integrating the financial and operational information into day-to-day decision-making. FIS is a key prerequisite to introducing modern comptrollership in the federal government.

In February 2000, the Public Accounts Committee expressed concern with the slow pace of consultations on implementing accrual-based appropriations.

33.174 In September 1998, we reported on the broader issues surrounding FIS and discussed three strategic challenges facing the government:

- integrating FIS into departmental management;
- moving to accrual-based appropriations; and
- obtaining departmental "buy-in" to FIS.

33.175 Our November 1999 chapter examined departmental readiness to implement FIS and reviewed the central leadership demonstrated by the Treasury Board Secretariat. In general, we found that serious departmental planning for FIS had just started despite being less than 20 months from the implementation deadline. Public Works and Government Services Canada had successfully implemented the FIS central systems while the Secretariat needed to strengthen its project management practices to move the project ahead.

33.176 The Standing Committee on Public Accounts (PAC) met in February 2000 to consider our November 1999 chapter on FIS. The Committee was concerned with the slow pace of consultations on implementing accrual-based appropriations. It recommended that the Secretariat complete its consultations as soon as possible and inform the PAC of its final decision and recommendation. The Committee also expressed an interest in the status of departmental implementation of FIS and recommended that the Secretariat develop statistical indicators, to be published on the Secretariat's Web site starting in May 2000. In addition, the Secretariat was asked to submit an annual report on the status of departmental connections to the FIS central systems, starting in June 2000.

Scope

33.177 For this follow-up we reviewed documentation of the Treasury Board Secretariat and Public Works and Government Services Canada on the status of FIS implementation. We interviewed officials of these central agencies and conducted a survey on the status of departmental implementation. The follow-up is based on information received before mid-September 2000.

Conclusion

33.178 Our November 1999 chapter stated that it was time for the government to "turn up the heat" in its efforts to implement FIS. In the past year, departments have made progress in connecting to the FIS central systems and are in the final stages of preparing their financial systems to support the new accrual accounting requirements under FIS. The Treasury Board Secretariat has made progress on the development of accounting policies but could be further

ahead at this stage to permit departments to finalize the configuration of their systems prior to the start of the next fiscal year.

33.179 The Secretariat has improved its project management practices of the overall FIS implementation. For example, it has established a monthly progress reporting framework and the FIS Assistant Deputy Minister Steering Committee. It has also implemented the FIS Forum, where departmental FIS representatives meet to discuss issues and to share best practices. The Secretariat, with the assistance of FIS Forum working groups, has produced a number of important documents, including an accounting manual and guidance on change management and communication.

33.180 The government needs to continue its effort to successfully implement FIS systems and policies by April 2001. While that is an important milestone, departments and agencies need to ensure that improved financial information is integrated into day-to-day management decision making. This is crucial for government to develop the financial management environment needed under modern comptrollership. Change management is a critical component in achieving this.

Observations

Departments have made progress in connecting to the FIS central systems

33.181 The FIS central systems were implemented successfully in April 1999. In addition to providing payments, receipts and payroll services, these systems capture summary financial information from departments for use in preparing government-wide reports and financial statements. Thirty-five departments and agencies have already connected to these central systems. The remaining 63 departments and agencies are in the process of preparing their financial systems for the April 2001 deadline.

33.182 Public Works and Government Services Canada (PWGSC) is managing the FIS central systems and is co-ordinating the connection of the departmental systems. It continues to make extensive use of risk and project management techniques to minimize the risks associated with a large number of connections occurring at the same time. For example, PWGSC has insisted that departments and agencies sign memoranda of understanding, clearly indicating the roles, responsibilities, and milestones that need to be met to successfully connect to the central systems. These memoranda indicate that a large number of departments plan to carry out interface testing in the period ending January 2001, which is only two months before the implementation deadline. PWGSC is monitoring the departmental implementation closely, particularly in departments with extremely tight implementation schedules. Decisions on contingency plans will be made in November 2000.

The Secretariat implemented the FIS Forum, where departmental FIS representatives meet to discuss issues and to share best practices.

Public Works and Government Services Canada continues to make use of techniques to minimize system implementation risks.

The Treasury Board Secretariat has made progress with its accrual accounting policies but work still needs to be done

33.183 With less than seven months, as of September 2000, before the implementation of FIS systems and policies, the government needs to have a clear understanding of its accrual accounting policy requirements. Due to the complexity of modern financial systems, it is important that departments and agencies have this information now to configure their systems before April 2001. While the Secretariat has made progress in this area, work still needs to be done. For example, under FIS, departments will be required to produce a set of accrual-based financial statements. Revised requirements for these financial statements were issued for comments in August 2000 and are in the process of

The Secretariat has made progress with its accrual accounting policies, but work still needs to be done.

The Secretariat expects to complete its accounting manual in October 2000.

being finalized. Draft policies in other areas, such as transfer payments, prepaid expenses and environmental liabilities, have been issued for comments.

33.184 In his observations on the financial statements of the government, published in the Public Accounts of Canada, the Auditor General indicated that the Secretariat and departments appear to be spending considerable effort on developing accounting policies that are not currently required by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants; for example, inventories for consumption and intangible assets. He noted that many departments, particularly the smaller ones, already have their hands full capitalizing tangible capital assets without the added complexity of these additional policies.

The Secretariat has obtained $60 million in additional funding for FIS that will be allocated to departments and agencies over the three-year implementation period.

33.185 The Secretariat, with the help of the FIS Forum, is developing an accounting manual to help departments and agencies interpret and implement accrual accounting in their organizations. While we recognize that much progress has been made in a short period of time, as of September 2000, the manual is still not finished. The Secretariat expects to complete the manual in October 2000.

The Treasury Board Secretariat has improved its FIS project management

33.186 In our November 1999 Report, we noted that the Secretariat needed to improve its FIS project management practices. Specifically, we recommended that the Secretariat:

The Secretariat has instituted a monthly reporting framework, which will form the basis of FIS progress and readiness indicators.

- maintain a fully integrated master plan;
- obtain documented commitment from departments;
- obtain and review departmental FIS implementation plans;
- establish a reporting framework to monitor departmental progress;
- consider providing additional resources to departments where needed; and
- develop a comprehensive communications plan and provide guidance on change management.

33.187 The Secretariat maintains a high-level FIS master plan that is reviewed at the monthly meetings of the FIS Assistant Deputy Minister Steering Committee.

33.188 In the past year, the Secretariat has obtained $60 million in additional funding for FIS that will be allocated to departments and agencies over the three-year implementation period. In exchange, it obtained documented commitments from departments and their deputy ministers to implement FIS by April 2001.

33.189 The Secretariat also instituted a monthly reporting framework where departments report their progress on a number of key FIS implementation milestones. These reports will be summarized to form the basis of FIS progress and readiness indicators that were to be published in September 2000.

Integrating improved financial information into day-to-day decision making remains a challenge

33.190 Departments and agencies are working hard to implement their new financial systems and the accrual accounting policies required under FIS. While these are two key building blocks in the move to modern comptrollership in the government, the integration of better financial information into day-to-day management decision making is the ultimate goal. As we reported in our chapters, this represents a significant change management challenge, which requires planning, effort and most of all, time.

33.191 The Secretariat, with significant assistance of the FIS Forum, has recently

produced a number of documents related to change management — a framework for change and guidance on developing change strategies and plans.

33.192 Many departments and agencies have expressed difficulty in obtaining manager buy-in to the need for FIS. These managers say that they cannot see the benefits. This indicates that a significant change management and communication challenge exists. Yet there are few departments that have developed change management strategies to move their organization to the new financial management environment. Many departments indicated that they plan to develop such strategies in the future.

33.193 Under FIS, departments will have greater responsibility for their accounting records. This means that the quality of the government's overall financial statements will rely heavily on the quality of the summary information of these departments. A strong financial management environment would help ensure the quality of the information maintained and used by departments in their day-to-day activities as well as the quality of the summary information provided to the centre for government-wide reporting purposes.

33.194 In this regard, our work on the financial management capability of departments, as reported in Chapter 13 of our October 2000 Report, found that gaps remain between current expectations for financial management and the existing capabilities of each of the departments we reviewed. We also reported that departments are at the initial stages of developing the capabilities needed for the Information Level of the Financial Management Capability Model. These capabilities are essential to many of the current initiatives of the federal government, including FIS and modern comptrollership. Change management is a critical component in achieving these goals.

The Treasury Board Secretariat has not yet finalized its consultations on implementing accrual-based appropriations.

33.195 The Public Accounts Committee has asked the Secretariat twice to complete its consultations and to submit its recommendations on moving to accrual-based appropriations. The consultations were initially scheduled for completion in November 1999 and then postponed to the fall of 2000. They are now expected to be completed and a decision with respect to the feasibility of implementing accrual-based appropriations made by the end of the current fiscal year.

33.196 Given the timetable for Parliament and the estimates process, the earliest realistic date to introduce accrual-based appropriations would be for the 2003-04 fiscal year. The requirement to maintain and report information under two different bases of accounting for at least three years adds a level of complexity in a critical period of change. However, if managed well, departmental managers and members of Parliament could use this time to adapt to accrual accounting practices before accrual-based appropriations are introduced.

Few departments have developed change management strategies to move to the new financial management environment.

A strong financial management environment would help ensure the quality of the information maintained and used by departments.

A decision on the feasibility of implementing accrual-based appropriations is now expected to be made by the end of the current fiscal year.

Veterans Affairs Canada — Disability Pensions — 1998, Chapter 23

Assistant Auditor General: John Wiersema
Director: Marilyn Rushton

Background

33.197 In our 1998 audit of Veterans Affairs Canada, we reported on the provision of disability pensions to veterans and other eligible recipients and on the changing nature of the Department's clients. The objective of our audit was to determine whether the Veterans Affairs Portfolio, which includes Veterans Affairs Canada and the Veterans Review and Appeal Board, was managing the disability pension program in a way that ensured that high-quality decisions were being made consistently and in a timely manner.

Veterans Affairs Canada has taken action in each area discussed in our 1998 chapter.

33.198 The audit noted that the Veterans Affairs Portfolio had been successful in meeting its commitment to significantly reduce turnaround times for processing disability pensions. We concluded that the Portfolio needed to continue enhancing this process by taking the steps necessary to improve the consistency, efficiency and overall quality of disability pension decisions.

33.199 The key areas of concern we raised in 1998 dealt with improving the services provided to applicants for disability pensions and the need for a strategy to address the changing nature of clients at Veterans Affairs Canada.

33.200 We made several observations and recommendations on the disability pension program. Our concerns included the need for:

- standard guidance materials in the preparation of applications;
- guidance materials to make entitlement decisions and to assess the extent of disability for pension purposes;
- regular analyses of the reasons for decisions that are overturned on review or appeal; and
- opportunities to make greater use of the departmental review process.

33.201 In addition, our 1998 chapter recommended that, in reporting to Parliament through its Report on Plans and Priorities, Veterans Affairs Canada explain the role it plays in relation to the peacetime members of the Canadian Forces, the changes expected in its client base and its strategy for adapting to these changes.

Scope

33.202 Our follow-up consisted of a review of actions taken by Veterans Affairs Canada in response to our recommendations. It involved enquiry, discussion and review of various documents supplied by the Veterans Affairs Portfolio. Our work was designed to provide Parliament a moderate level of assurance that our findings were addressed.

Conclusion

33.203 The Department has expended considerable effort to respond to our recommendations. It has taken action in each area discussed in our 1998 chapter and completed the corrective action for certain recommendations. Several initiatives, including the planned revisions to the table of disabilities and greater use of the departmental review process, are under way. In addition, the Department is working on a number of initiatives that address the needs of its Canadian Forces clients. These initiatives focus on meeting the needs of these clients under existing legislation. In January 2000, a joint

VAC-DND (Veterans Affairs-National Defence) Task Force was established to examine the way in which Veterans Affairs Canada does business and to redefine programs and services for Canadian Forces clients. This task force is scheduled in May 2001 to provide options for the Minister to take to Cabinet. It is too early to determine whether the expected results of the above-noted initiatives will be achieved in a timely manner.

Observations

Preparation of first applications

33.204 In 1998 we recommended that Veterans Affairs Canada develop service standards for its role in preparing a first application for disability pension benefits. The Department's response in 1998 stated that it chose not to include service standards on the time to carry out these services, because most of the activities involved in case preparations lie outside the Department's control, either with outside agencies or applicants.

33.205 However, since 1998, the Department has implemented internal performance standards to ensure active follow-up and case management in the collection of documentation for disability pension applications.

Preparation of disability pension applications

33.206 In 1998 we recommended that the Department improve the services provided to applicants in the preparation of disability pension applications by:

- improving standard national guidance materials and manuals;
- ensuring that new pension officers receive appropriate initial training on a timely basis; and
- re-examining workload distribution.

33.207 We found that the Department has developed a Pension Officer Reference Manual to meet the need for a standardized information and procedures manual, and has developed standardized procedures for the first application process. The Department also provides a training workshop by qualified personnel for new pension officers as soon as operationally possible.

33.208 The improved guidance materials and the training workshop will assist the Department in providing consistent quality service to disability pension applicants.

33.209 The Department has conducted a study on workload and related allocation of resources for its district and regional offices. As a result of the study, some resources were reallocated to meet workload requirements.

Adjudication of first applications

33.210 In 1998 we recommended that Veterans Affairs Canada improve guidance materials used in making entitlement decisions and in assessing the extent of disability for pension purposes. We also recommended that guidance materials be revised periodically to reflect the trends of disability pension claims.

33.211 The Department has developed a Pension Adjudication Reference Manual. The manual provides a comprehensive resource so that all adjudicators have access to identical and current information.

33.212 The Department is presently undertaking an extensive revision of the table of disabilities, which is the instrument used in assessing the extent of disability for pension purposes. The project is scheduled for completion in March 2001. While the Department has made good progress on our recommendation, it is important that resources remain available for this project to ensure a timely completion.

33.213 In 1998 we recommended the Department document the reasons for assessment decisions and provide these reasons to applicants. We found that the reasons for assessment decisions in hearing loss claims are provided to applicants; however, for psychological cases, the reasons are documented in a memo to file but are not provided to the applicant in the decision letter.

33.214 When the Department completes the revision of its table of disabilities, it will be able to better articulate the reasons for assessment decisions. In the meantime, the Department has taken steps to sensitize staff of the need to provide the clearest rationale possible, subject only to the limitations imposed by the existing guidance materials.

Overturned decisions during the review and appeal process

33.215 In 1998 we recommended that to improve the quality and efficiency of decision making, the Veterans Affairs Portfolio carry out regular analyses of the reasons for decisions that are overturned by the Veterans Review and Appeal Board.

33.216 We found that the Department has carried out monthly reviews of decisions rendered by the Veterans Review and Appeal Board. A sample of review and appeal decisions are reviewed to determine the basis for overturning the first-level decisions, the policy direction of the Board, the need for departmental policy or legislative changes, and the need for training. Monthly reports are generated to identify issues with respect to policy, operations, medical assessments and training. Ad hoc reports are prepared on specific Board decisions that may require follow-up action or discussion, and a selection of Board decisions are circulated for training purposes.

33.217 The Veterans Review and Appeal Board, in addition to reviewing the comments contained in the Department's review, has completed several initiatives in response to our 1998 recommendations. The Board's initiatives include:

- the analyses of federal court cases;
- the development of The Consistency Guideline for format, style and language use in the Board's decision document;
- a Peer Review of Members' Decisions pilot project; and
- the Veterans Review and Appeal Board Client Survey, conducted in the spring of 2000.

Opportunities for greater use of the departmental review process

33.218 In 1998 we recommended that to improve the efficiency and timeliness of decision making in the disability pension program, Veterans Affairs Canada examine opportunities to make greater use of the departmental review process.

33.219 The Department has developed a directive on the use of departmental reviews for inclusion in its Pension Officer Reference Manual. The purpose of the directive is to clarify the process or remedy to use in different circumstances. As well, as part of the Department's project to review decisions overturned by the Veterans Review and Appeal Board, cases that could have been handled through departmental reviews rather than by the Board are being identified for training purposes.

33.220 In August 2000, the Department began a pilot project on the use of departmental reviews for clients still serving in the Canadian Forces. The purpose of the project is to determine whether a co-operative effort can increase significantly the number of favourable decisions earlier in the pension process and thereby create greater client satisfaction and reduce review hearings by the Veterans Review and Appeal Board at the pilot sites.

Information on the changing nature of clients

33.221 In our 1998 audit, we noted that in reporting to Parliament through its Report on Plans and Priorities, Veterans Affairs Canada had not explained the role it plays in relation to the peacetime members of the Canadian Forces, nor had it explained the changes expected in its client base and its strategy for adapting to these changes.

33.222 We found that the recent Report on Plans and Priorities and the Portfolio Performance Report included several sections describing the active role of the Department in relation to the career and support of current and former peacetime members of the Canadian Forces.

33.223 The Department has embarked on several initiatives, including the Review of Veterans' Care Needs Project and the Veterans Affairs Canada-Canadian Forces Project, to further study the impact of the shift in client composition on program delivery and to develop strategies for effecting change as required. In April 1999, the DND-VAC Centre for the Support of Injured and Retired Members and Their Families was opened.

33.224 The Review of Veterans' Care Needs — Phase III, a study of issues related to the relevancy and appropriateness of care and support of Canadian Forces clients and families, was completed in March 2000. The findings of the study will be used in the Joint VAC-DND "Continuum of Service Project". This project will determine options for the Department's future program development and delivery to Canadian Forces clients.

33.225 We believe that the Department has made good progress in gathering information on the changing nature of the its clients, particularly the Canadian Forces. It is now ready to develop options to meet its clients' needs.

33.226 Any significant changes required in programs, services and benefits to meet the needs of Canadian Forces clients will be considered in the Continuum of Service Project scheduled for completion in May 2001. Subsequent implementation of changes will depend on government approval and funding.

Revenue Canada — International Tax Directorate: Human Resource Management — 1998, Chapter 24

Assistant Auditor General: Shahid Minto
Principal: Barry Elkin

The International Tax Directorate has moved forward on a number of human resource initiatives, but it is too early to judge their success.

Background

33.227 In our 1998 audit, we noted that the International Tax Directorate of Revenue Canada (now the Canada Customs and Revenue Agency) required a stable work force of highly skilled professionals to properly manage the risk to the tax base in this complicated, knowledge-intensive area. However, both at headquarters and in Tax Services Offices, we found a high rate of staff turnover, low average levels of experience, and the use of secondments, redeployments and acting assignments to fill many key positions. Coupled with long delays in the staffing process, this gave rise to a lack of continuity and stability in the Directorate. We recommended that analysis, planning and implementation of needed human resource initiatives be carried out as soon as possible and that databases be enhanced to provide managers with better information for human resource planning.

Scope

33.228 Our follow-up work involved reviewing the status report provided by the International Tax Directorate on its progress in implementing our 1998 recommendations. Our observations here are based on a review of this and other documents provided to us and on interviews with Directorate officials. These documents included an internal evaluation assessment study conducted by the Corporate Affairs Branch of the Canada Customs and Revenue Agency, reported in January 1999. The study noted, among other things, that the Directorate's activity structure needed a comprehensive review to ensure that the program delivery framework was effective and efficient. The study also found that the Directorate was not providing adequate direction to field offices.

Conclusion

33.229 Significant change has occurred in the Directorate since our 1998 audit. It has moved forward on a number of human resource initiatives in response to concerns raised in our report and in the 1999 evaluation assessment study and to the new issues emerging in the field of international taxation. Many of the initiatives are in their preliminary stages and it is too early to judge their success. Some are broad corporate initiatives that are not directly under the control of the International Tax Directorate. All are long-term initiatives, and the challenge will be to maintain their momentum over time to fully address our recommendations.

Observations

Staff stability

33.230 The most notable change in the Directorate is the increase in staff numbers at headquarters and in the ratio of permanent staff to staff on loan. In response to our recommendation, the Directorate prepared comprehensive staffing plans for both 1999 and 2000. In 1998 there were 80 staff at headquarters, and by 30 April 2000 this had risen to 146 (see Exhibit 33.3). The staff increases were due to legislative changes and the anticipated increase in workload to deal with advance pricing agreements, double taxation cases and exchange of information with Canada's treaty partners.

33.231 In 1998 we were concerned that 48 percent of the Directorate's staff at

Agency headquarters were on loan from other directorates, including 12 of the 32 senior auditors. At 30 April 2000, only 18 percent were on loan, including 3 of the 48 senior auditors.

33.232 The Directorate is also taking action to stabilize its senior management cadre. In 1998 we noted that only one of the four divisions at headquarters had a director who was permanent in the position, and the director general position had been vacant for an extended period of time. Currently, the director general, a deputy director general and a director are permanent in their positions. The two acting directors are expected to be made permanent in the near future.

33.233 Given this period of transition, many of the Directorate's staff at headquarters do not have extensive experience in the international tax field — only 2.5 years on average. In 1998 we noted that the Directorate was having difficulty retaining staff because of the demand elsewhere for their special expertise. Due to the number of departures in the 20 months since our audit, 113 people were hired to achieve a staff increase of 66 (see Exhibit 33.3).

33.234 In response partly to the evaluation assessment study and partly to the growth and change in the field of international taxation, the Directorate is implementing a new organizational structure at headquarters. This structure is designed to strengthen functional guidance to the field offices while grouping the corporate functions of policy, budgeting and strategic planning. Greater emphasis will be placed on transfer pricing as an element distinct from double taxation cases, advance pricing agreements and exchange of information. The new structure will also allow the Directorate to handle all tax procedures involving film and television production, a growing and important industry. A fifth Division, Competent Authority Services, has been added to the Directorate.

33.235 At Tax Services Offices (TSOs), the number of international staff has remained stable at about 395. The average experience has increased slightly from less than 3 years in 1998 to 3.75 years at May 2000. However, the percentage of international tax employees who are permanent in their positions has declined from 87 percent in 1998 to 76 percent in May 2000. Moreover, only 62 percent of senior tax auditors are permanent in their positions. The Directorate has informed us that some TSOs rotate their staff to acquire experience in all tax programs, which means that a high percentage of staff are on loan at any given time.

Many of the Directorate's staff at headquarters do not have extensive experience in the international tax field — only 2.5 years on average.

Exhibit 33.3

International Tax Directorate – Staff Resources at Headquarters

Division	Total Employees August 1998	New Staff	Departures	Total Employees April 2000
Director General's Office	9	14	5	18
Special Projects	2	1	3	0
International Tax Strategy	3	12	4	11
Transfer Pricing and Competent Authority	25	34	5	54
International Audit	19	22	15	26
Non-Resident Assessing and Withholding	22	30	15	37
Total	**80**	**113**	**47**	**146**

Source: Canada Customs and Revenue Agency

The Canada Customs and Revenue Agency is currently building a competency-based human resource management system for Agency-wide use.

The staffing process

33.236 In 1998, we noted that there were long delays in the staffing process and it took an unusually long time to mark examinations and establish eligibility lists. This was due in part to the cumbersome rules governing human resource management in the public service and in part to the external appeals process. On 1 November 1999, the Canada Customs and Revenue Agency was established as a separate employer under the *Public Service Staff Relations Act*. The Agency believes that the staffing flexibility it now has will allow it over time to accelerate staffing actions considerably.

33.237 On 23 March 1999, the Agency presented an action plan to the Public Accounts Committee to address the concerns raised in our 1998 chapter. The action plan included conducting a demographic study, developing competency profiles, offering a variety of training initiatives, and establishing prequalified pools of candidates for forecast vacancies. The Agency's Business Plan and its Performance Report for that year included elements of this action plan.

33.238 The demographic report was completed 26 March 1999. It presents a snapshot of the Compliance Programs Branch work force as a whole. The Directorate is part of this Branch. The report notes that the highest proportion of employees eligible for retirement in the next 10 years is in the auditor group, particularly the middle to senior auditor group, 48 to 78 percent of whom may retire. It also notes that the highest proportion of employees eligible for retirement will be at headquarters — 51.44 percent. The report states that a sound strategy is essential to recruit, maintain and develop highly competent staff. The Branch intends to update the information in this demographic study and use it to prepare staffing plans.

33.239 The Canada Customs and Revenue Agency is currently building a competency-based human resource management system for Agency-wide use. The Human Resources Division has developed a catalogue of competencies that identifies the skills, knowledge, abilities or behaviours that contribute to successful job performance. Many of the competency profiles, which define the level of proficiency required in each competency in order to do a job well, have also been developed for positions in the International Tax Directorate. The majority of the Directorate's management and administrative support positions have not yet been addressed because they are to be established across the Agency.

33.240 All training and learning activities in the Branch have been listed and plans are to match these with the competency profiles. The result will be a competency profile and a corresponding learning profile for each job. Managers and employees will then be able to develop individual learning and development plans for specific positions and for career development.

33.241 The standardized assessment of established competencies will provide the basis for prequalification of candidates for promotional opportunities. The extent to which this will speed up the staffing process is not known at present. Headquarters is still resolving outstanding appeals of competitions run previously under the *Public Service Employment Act*.

33.242 The action plan presented to the Public Accounts Committee included three trainee programs to ensure a well-qualified and well-trained work force. One of the programs was to recruit and train basic auditors for the field, not specifically for the International Tax Directorate. At present, there are about 58 participants in the program. The two other programs were to prepare auditors for anticipated vacancies at more senior levels. With the introduction of a competency-based human resource

management approach, neither initiative has gone forward.

33.243 As many of the activities in the action plan are now being implemented and are long-term in nature, it is too early to judge their effectiveness in attracting and retaining highly skilled people.

Human resource information system

33.244 In 1998 we noted the need for reliable human resource information systems to provide key information on employees. The Directorate needs to maintain information on employees' work location, occupational group and level, and years of experience, among other things. At that time, Revenue Canada indicated that a department-wide project was under way, called the Corporate Administration System (CAS). The human resources component of CAS was to provide enhanced human resource information. A portion of this component was implemented in July 1999. It allows for the recording of basic data on employees, such as job classification and compensation. However, currently it does not provide information on employee experience or performance and does not allow for the roll-up of information on the number of employees acting in positions or on loan from other areas. The use of CAS to track employee training varies from office to office, and the training module is not fully operational. The development and implementation of future human resource modules depends on the needs definition that emerges from the competency-based approach to human resource management.

Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage — 1998, Chapter 27

Assistant Auditor General: Richard Flageole
Principal: Peter Simeoni

Background

33.245 In 1998 we reported on selected grant and contribution programs in Industry Canada and the Department of Canadian Heritage. In Industry Canada, we audited contributions under the Ontario Base Closure Adjustment Program (OBCAP), and the contributions to the Canadian Network for the Advancement of Research, Industry and Education (CANARIE Inc.) and to the Pre-Competitive Applied Research Network (PRECARN Associates Inc.). In Canadian Heritage, we audited grants and contributions under the Multiculturalism Program.

33.246 Our report had the following three messages:

- Our audits of grant and contribution programs over the past 21 years have demonstrated a long series of persistent problems.

- Significant opportunities exist to improve the management of Industry Canada's OBCAP and Canadian Heritage's Multiculturalism Program.

- Industry Canada could strengthen accountability for performance for its contribution programs delivered by the third parties, CANARIE and PRECARN.

33.247 We suggested that there were many reasons why these problems persisted, some of which had to do with situations where decision makers simply have not followed the rules on grants and contributions. There were also other, more systemic reasons having to do with weak management practices — in particular, failures to set clear, attainable goals, to exercise due diligence, and to measure performance. In short, concern for results was inadequate.

33.248 The Standing Committee on Public Accounts considered our report and made a number of recommendations, which were tabled in the House of Commons. In particular, the Committee recommended that Industry Canada and Canadian Heritage report the objectives for all their grant and contribution programs in their departmental performance reports, beginning in 1999. The Committee also recommended that they report actual outcomes against expected results for these programs, beginning in 2000. In its response to the Committee's report, the government undertook to remedy the problems identified in the audit as expeditiously as practical. The Committee further recommended that the Office of the Auditor General consider undertaking a comprehensive audit of the management of grant and contribution programs and report its conclusions and recommendations to Parliament. In response to this recommendation, the Office is undertaking a government-wide audit and will report its findings in the fall of 2001.

33.249 In summarizing the problems that have persisted in the management of grant and contribution programs since 1977, we suggested that weak management practices was a reason for some of the difficulties. As promised in our report, we have provided guidance on risk identification for grant and contribution programs. This guidance results from our experience in value-for-money audits of grant and contribution programs, the

advice of managers in Industry Canada, and managers from many other departments. It is intended to provide managers and staff of grant and contribution programs with a tool to identify risk. It complements and reinforces government policy and direction by helping managers assess and improve their current practices.

Scope

33.250 We reviewed the status of commitments made by Industry Canada and the Department of Canadian Heritage in response to our recommendations and those of the Public Accounts Committee (see Exhibit 33.4). We also reviewed the status of commitments made by each department in subsequent correspondence with the Chair of the Public Accounts Committee.

33.251 We conducted interviews with program staff in Ottawa and Toronto from Canadian Heritage's Multiculturalism Program, and in Ottawa from Industry Canada's OBCAP, CANARIE and PRECARN programs. We reviewed supporting documentation and status reports, as well as recent internal audits of the Multiculturalism Program.

Conclusion

33.252 We are satisfied that Industry Canada is making reasonable progress in addressing our recommendations and those of the Public Accounts Committee; however it is too early to assess the results of measures put in place to establish annual performance expectations for CANARIE and PRECARN.

33.253 Our follow-up work uncovered a new accountability problem in the funding of PRECARN. In 1999 PRECARN requested $20 million in government funding for a six-year research program. In April of this year, PRECARN received the $20 million as a one-time grant as part of the 2000 federal budget. Because PRECARN will need to spend the money only as it incurs research costs, it has invested the $20 million and is earning interest. We have three concerns:

- Paying the money before it was actually needed results in additional interest costs to the government, which we estimate at about $5 million.
- PRECARN could earn $3.6 million on the $20 million it has invested, and the Department could not explain why PRECARN will receive more money than it had actually requested.
- There is no accountability to the Department for how this additional funding will be used.

33.254 We have concluded that the Department of Canadian Heritage has not yet made sufficient improvement in the management of grants and contributions in its Multiculturalism Program. The Department has undertaken a number of initiatives to address the problems we found and to strengthen due diligence across the Department. However, a recent internal audit of projects approved between January and May 2000 shows that the results of those initiatives have not yet been reflected in the demonstration of a minimum standard of due diligence in the assessment and approval of grants and contributions. We plan to report on the Department's progress in addressing these problems again next year.

Observations

Industry Canada

33.255 **OBCAP.** The Ontario Base Closure Adjustment Program was launched in 1994 to help communities affected by military base closures. The program was assigned a budget of $11.8 million over seven years. At the time of our audit in 1998, 19 projects had been funded and about $945,000 was left to be distributed over the final three years. The final date to submit new applications was 31 March 1999. Three projects were

Industry Canada is making reasonable progress in addressing our recommendations. However, our work uncovered a new accountability problem.

Canadian Heritage has not yet made sufficient improvement in the management of grants and contributions in its Multiculturalism Program.

Exhibit 33.4

Status of Selected Public Accounts Committee Recommendations

Recommendation	Industry Canada	Department of Canadian Heritage
1. That the departments clarify all grant and contribution program objectives, and include them in their annual Performance Reports to Parliament for the period ending 31 October 1999.	Industry Canada included the objectives for all its active grant and contribution programs as at 31 July 1999 in the Performance Report released in the fall of 1999.	The Department informed us that in preparing its Performance Report for the period ending 31 October 1999, it realized that it would be impractical, within the constraints of the Treasury Board format, to include over 45 programs' objectives. Rather than present only the Multiculturalism Program's objectives, the Department undertook to identify, for subsequent reports, appropriate means to report equally on all programs.
2. That the departments begin to report actual outcomes against the expected results in their performance reporting to Parliament, beginning for the period ending 31 March 2000.	We reviewed a draft of the relevant section of Industry Canada's 1999-2000 Performance Report, which presented actual results of active grant and contribution programs up to 31 March 2000. The text referred the reader back to the previous year's Performance Report for information on the objectives of the programs. While the presentation of results was more in the form of outputs than outcomes and not necessarily linked to expected results, we conclude that the Department has made a good start in responding to this recommendation.	We reviewed an advance copy of Canadian Heritage's Performance Report. It presents a list of the transfer payment programs with transfers in excess of $5 million (per the requirement of the government's new Policy on Transfer Payments) with page references to sections of the report where more information on the program is presented. The information provided varied widely for the different programs and included statements of purpose, activity levels, or some outputs and outcomes where they could be linked to departmental strategic objectives.
3. That the departments review the decision-making processes for all grant and contribution programs and that they ensure that all eligible applications for funding are assessed against the criteria approved by the Treasury Board.	Following our audit, Industry Canada directed that submissions requesting approval of projects clearly demonstrate how the proposal meets all relevant program authorities and how the project will contribute to attaining the objectives of the program. The submissions should also address how the project meets the eligibility criteria and how the project has been assessed against the assessment criteria. These requirements were also added to the pre-approval integrity review conducted on all contributions greater than $500,000, and to the post-approval review conducted at year end on a sample of contributions less than $500,000.	The findings of Canadian Heritage's internal audit show that the Department's decision-making processes for the Multiculturalism Program did not at the time of the audit ensure that applications were assessed against the criteria approved by the Treasury Board. The Department implemented remedial actions, including mandatory due diligence training for all staff and managers who have grant and contribution responsibilities, a new grant and contribution information management system, and clarified accountabilities.
4. That the departments audit periodically all their grant and contribution programs and report the results of these audits in their annual performance report to Parliament, beginning fiscal year 2000-01.	Industry Canada's management control framework produced in March 2000 indicates the status of audits (completed or under way) for all its grant and contribution programs.	The Department's 2000-01 review plan targets a selection of grant and contribution programs for audits of recipient compliance with program terms and conditions, use of funds, and, where deemed appropriate, an examination of program management and delivery.

approved since our 1998 audit, bringing the total number of projects supported under the program to 22. Of the 22 projects, 13 were studies representing 27 percent of the funding, and nine were economic development projects, representing 73 percent of the total contributions approved. As of September 2000, Industry Canada records indicated that three active projects could submit potential claims of about $655,000 before 31 March 2001, when the program ends.

33.256 In 1998 we found little or no information on file to indicate that Treasury Board criteria had been considered in the decision to fund several of the projects we audited. Moreover, there was little information on project results. We recommended that Industry Canada ensure that the projects it funds in its contribution programs represent value for money to both the applicant and the program. In particular, the Department had to apply the terms and conditions approved by the Treasury Board for its grant and contribution programs, and document assessments to properly justify the decision to fund or not to fund a project.

33.257 Although OBCAP is nearing its end, the Department acted to correct these deficiencies and to apply lessons learned to future programs. Following our audit, the management of the program was transferred to a unit within the Department that manages the winding down of programs.

33.258 In addition, the following measures were undertaken in response to our audit of OBCAP:

- a review of the Project Summary Form used in the review and approval of new OBCAP projects to ensure that Treasury Board criteria are considered and documented; and
- a review of project files throughout the remaining mandate of the program.

33.259 The Department reviewed all projects approved as of May 2000 (21 of 22 projects). The findings corroborated our 1998 conclusions, identified additional issues for management's attention, and presented recommendations to generally improve grant and contribution program management in the Department.

33.260 Our 1998 audit had noted the lack of performance information on projects. There were no reports in the files of visits to the sites of the larger projects we audited, and final reports on projects we audited did not contain information on the fulfilment of program objectives. In response to these observations, staff have conducted and documented on-site visits to all OBCAP economic development projects. The Department has received reports for 14 of 19 completed projects and is making a concerted effort to obtain the rest. Officials told us that the results of an evaluation of OBCAP were expected to be reported at the end of November 2000.

33.261 CANARIE and PRECARN. CANARIE and PRECARN are examples of indirect or third party program delivery mechanisms. With this approach, Industry Canada provides funding to an organization outside the federal government, which, in turn, decides on the ultimate recipients of the money and manages the funding agreements.

33.262 CANARIE is a not-for-profit organization, created in 1993 as a collaborative venture involving industry, research and education communities, and the federal government. Its mission is to facilitate the development and application of advanced Internets in Canada and thereby contribute to the competitiveness of Canada's information and communications technology sector, as well as to the application of this technology in critical parts of the public sector. In August 1999, a new contribution agreement totalling $78 million was signed for the Phase 3 program

Industry Canada acted to correct deficiencies in the Ontario Base Closure Adjustment Program (OBCAP) and to apply lessons learned to future programs.

Industry Canada has taken appropriate steps to monitor due diligence processes in CANARIE Inc. and has set the stage for improved performance management.

(1999–2004). Of this amount, $10 million was subcontracted to PRECARN.

33.263 PRECARN is a not-for-profit industry-led organization created in 1987. Its purpose is to foster collaborative, pre-competitive research in smart systems designed for applications that hold high potential economic benefits for Canadian firms. Phases 1 and 2 of the PRECARN program were supported by non-repayable contributions (Phase 1 – $16 million; Phase 2 – $19.4 million). In March 2000, the Treasury Board approved a single payment grant in the amount of $20 million to PRECARN in support of Phase 3 (2000–06).

33.264 In 1998 we recommended that Industry Canada:

- obtain assurance that CANARIE and PRECARN exercise due diligence in selecting and managing projects;
- set clear annual performance expectations for its contributions; and
- assess performance annually.

33.265 In assessing the Department's response to our recommendations, it is necessary to understand the phased nature of the operations of CANARIE and PRECARN. In general terms, once Cabinet approves federal support, Industry Canada works with each organization to establish a funding agreement that outlines the objectives that the Department expects to achieve through the research that will be funded by the organization. The organization then identifies priority areas for support that address the Department's objectives and issues requests for proposals to the community of eligible applicants. The organization selects research projects for support from those proposed and then can develop annual performance expectations to address the Department's objectives and to report annually on outcomes relative to these expectations.

33.266 CANARIE. The contribution agreement for Phase 3 of CANARIE came into force on 1 April 1999. The new agreement specifically addresses our observation on improving accountability for program performance by requiring CANARIE to provide the Department with a comprehensive annual report on program progress and on performance. In April 2000, the Minister approved an operational plan identifying the priority areas for funding and the criteria for evaluating proposals for support. The first call for proposals was issued in the fall of 1999 for research projects in one of the priority areas, and the selection of projects was completed in May 2000.

33.267 CANARIE submitted a draft of its first annual program progress report by July 1, as required. This report describes the first year of Phase 3 activities. The first annual performance report required by Industry Canada is due at the end of September 2000. Using the performance framework that CANARIE developed jointly with Industry Canada earlier in the year, CANARIE is expected to report on results relating to the design and launch of Phase 3 and to identify expected results for the coming year for research activities. Future reports will discuss annual and cumulative performance.

33.268 In 1998, we also recommended that Industry Canada take steps to increase its assurance that due diligence is being performed. As a result, Industry Canada staff are assessing the peer review processes under Phase 3.

33.269 We concluded that Industry Canada has taken appropriate steps to monitor CANARIE's due diligence processes and has set the stage for improved performance management of Phase 3. Time constraints prevented us from assessing whether the expected results being developed by CANARIE will address our recommendation for clear annual performance expectations.

33.270 PRECARN. Industry Canada took steps with Phase 2 of PRECARN to address our observation that greater assurance was needed to ensure funds

were being used for the purposes agreed. The Department introduced a project-level analysis of claims to ensure projects are progressing satisfactorily relative to strategic program objectives. This led to the provision of more detailed guidance on the Department's expectations for reporting under Phase 3.

33.271 The funding agreement for Phase 3 requires PRECARN to submit a framework for the implementation of Phase 3 by the end of September 2000. The framework is expected to specify how PRECARN will monitor the performance of participants. PRECARN is also expected to submit an annual review of progress to ensure that the program's objectives are being met. In response to our recommendation that the Department take steps to assure itself that PRECARN's due diligence meets expectations, Industry Canada staff reviewed the first peer review process conducted under Phase 3 in August 2000.

33.272 We concluded that Industry Canada has taken appropriate action to assure itself that funds are being used for the purposes intended and that due diligence meets departmental expectations. It has also taken steps to set the stage for stronger performance management under Phase 3 of PRECARN. Again, we were unable to assess whether the implementation plan under development will address our recommendation on clear annual performance expectations because of time constraints.

33.273 Payment made in advance of need and accountability is weak. In 1999, PRECARN had requested $20 million in government funding for a six-year research program. Funding for PRECARN was announced in the February 28, 2000 federal Budget, payable in full in fiscal year 1999-2000. In order to implement the Budget decision, Industry Canada obtained Treasury Board approval for a one-time payment of $20 million as a grant. We are concerned by the shift from contribution funding (used in Phases 1 and 2) to grant funding for Phase 3. We would have expected that, given the Department's recent efforts to strengthen accountability for performance in response to our 1998 audit, and the history of contribution funding for PRECARN, a contribution agreement would have continued to be the appropriate funding instrument.

33.274 The cash management provisions of the Treasury Board's Policy on Transfer Payments require that grants should not be paid to recipients in advance of need and that payments should be timed to correspond as closely as practicable to recipients' cash flow requirements. Funds advanced earlier than actually required by the recipient to meet imminent expenditures result in additional interest costs to the government. We estimate that the added cost to the government of this $20 million payment in advance of need could be as much as $5 million. The Department obtained Treasury Board approval for an exemption to the policy to allow it to make a one-time advance payment to PRECARN and thus implement the original Budget decision.

33.275 The Department informed us that PRECARN has invested the $20 million, and that it could earn an additional $3.6 million in interest on the grant over the next six years. Accordingly, we expected to find clear direction in the funding agreement with PRECARN on the use of these additional funds earned as interest, as well as a requirement for PRECARN to report on the disposition of these funds. We found no such requirements in the funding agreement, nor were departmental officials able to satisfactorily explain why PRECARN received more funding than it had requested.

The funding agreement with PRECARN Associates Inc. did not give clear direction on the use of additional funds earned as interest.

Industry Canada's response: *As part of the budgetary process, the 2000 Federal Budget provided for a one-time grant of*

$20 million in fiscal year 1999-2000 to PRECARN.

From the government's perspective, the provision of a grant was deemed the most effective method for pursuing Phase 3 of PRECARN's Research Program, as it provides the necessary flexibility to negotiate the best arrangements needed to maximize the leverage provided by government funds. It also ensures that research and development will be a timely and effective vehicle for development and adoption by Canadian firms, in the context of rapid technological change.

The Funding Agreement negotiated with PRECARN required that it submit a comprehensive Implementation Framework that would detail all financial, administrative and operational plans. The Department worked with PRECARN to ensure that provisions for the management of the interest were put in place. The Draft Implementation Framework, submitted to Industry Canada in September 2000, provides for the allocation of interest in the same manner as funds for the whole Program.

We cannot conclude that Canadian Heritage has made reasonable progress in clarifying the Multiculturalism Program objectives.

Canadian Heritage — Multiculturalism Program

33.276 The Multiculturalism Program uses a number of approaches to achieve its objectives, one of which is grants and contributions. In 1999-2000, the budget for grants and contributions was $16.47 million.

33.277 In our 1998 audit of this program, we found ambiguity surrounding the results expected from funded projects in relation to the program objectives, a lack of due diligence in 30 percent of the cases we reviewed, and inadequate monitoring of project performance. We recommended that the Department of Canadian Heritage:

- further clarify the objectives of the Multiculturalism Program by defining clear, attainable goals and expected annual results;
- ensure that due diligence is exercised in the review and approval of grants and contributions under the Program; and
- ensure that recipients provide the required performance information.

33.278 In its response, the Department acknowledged the importance of further clarifying program objectives. It stated its intention to renew its emphasis on the rigorous application of assessment criteria in the review and approval of grants and contributions, and to monitor results in order to assess their impact and effectiveness.

33.279 Following its hearing on our report, the Public Accounts Committee obtained commitments from the Department to a series of corrective actions. Since November 1999, the Departmental Review Committee has received reports on actions now under way in response to our audit and the Public Accounts Committee's recommendations.

33.280 Program objectives remain unclear. We cannot conclude that progress has been reasonable in clarifying program objectives by defining goals and expected results. The Department produced a first draft of a program performance framework in March 2000. When completed, the framework is intended to identify expected results (direct outcomes and ultimate impacts) and key performance measures. The Department informed us that program managers will finalize the performance framework and provide it to program staff in November 2000. We could not assess the extent to which the framework addresses our expectations as it was not complete when we finished our work. Management informed us that the development of a performance framework for the Multiculturalism Program was necessarily delayed by a 1999 exercise to set new strategic objectives for the Department. However, in our view, the ability of Multiculturalism staff to exercise due diligence in selecting projects hinges on a clear understanding of what the Program

is intended to achieve. Therefore, we expected that identifying expected results for the Program would have been done more expeditiously.

33.281 Due diligence has not improved sufficiently. In 1998 we could not assure ourselves that departmental officials had exercised due diligence in approving about 30 percent of the projects we audited. In 2000 we found that while some remedial action is under way, there are still serious problems with due diligence.

33.282 The Department accelerated action on our recommendations and the government's commitments to the House of Commons in the latter part of 1999 and early 2000. A limited scope internal audit of projects funded under the program between October 1998 and 31 March 1999, identified a number of continuing weaknesses in due diligence. The Department used the audit findings as the basis for due diligence training sessions developed and delivered throughout the Department between January and May 2000. The Department also implemented a new management information system, which is designed to support due diligence in the management of all departmental grants and contribution programs.

33.283 The Department recently conducted a second, broader internal audit of grant and contribution projects approved between January 2000 and May 2000. The audit report concludes that 19 percent of the files reviewed did not meet the minimum standard of due diligence; that is, assessments still did not take into consideration all of the criteria set by the Treasury Board and the assessment practices expected by the Department. A further 37 percent of files were rated as only "borderline acceptable". The audit observed a number of problems — for example, projects not linked to one of the five program objectives, unclear objectives and expected outcomes, no plans to assess impacts and evaluate results, and insufficient information on project budgets. The audit also found that three of the sampled projects included ineligible activities, and identified four projects where the Department had improperly used grants and contributions where contracts for services were the required vehicle.

33.284 Based on our review of the findings of the internal audit and management's actions to date, we concluded that the Department's response to the recommendation of our 1998 audit is unsatisfactory. We intend to follow up again in one year to assess the impact of more recent remedial actions on the actual performance of due diligence.

33.285 Project reporting still needs improvement. Our third recommendation was that the Department ensure that recipients provide the required information on project performance. In 1998 we found that one third of the files we audited did not contain the required final reports. The recent internal audit examined 30 grants where reporting had been imposed. The audit found that the conditions had been met in 79 percent of the files.

Department of Canadian Heritage's response: *When the internal audit revealed that the results of departmental due diligence initiatives were not sufficiently reflected in audited files, a Management Improvement Action Plan was established. This Management Improvement Action Plan completes the Performance Management Framework (implementation through a national workshop in November 2000), the revision of management controls and structures, and an exhaustive centralized monitoring of project files for National Review Committee recommendation. A set of directives addresses specific deficiencies identified during the audit. These measures will be fully implemented prior to follow-up by the Auditor General in 2001.*

There are still serious problems with due diligence in the Multiculturalism Program.

Chapter 34

Other Audit Observations

The work that led to other audit observations was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

	Page
Main Points	34-5
Introduction	34-7
Atomic Energy of Canada Limited	
AECL records its decommissioning and site remediation liabilities	34-8
Canada Customs and Revenue Agency and Human Resources Development Canada	
Dealing with suspected abuse and fraud in the Employment Insurance program	34-10
Human Resources Development Canada and the Canada Employment Insurance Commission	
Lack of clarity on basis used in setting Employment Insurance premium rates	34-18
Federal Investment in Big Science Projects	
The Sudbury Neutrino Observatory	34-22



Other Audit Observations

Main Points

34.1 The *Auditor General Act* requires the Auditor General to include in his Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

34.2 This chapter fulfils a special role in the Report. Our other chapters normally report on value-for-money audits or on audits and studies that relate to operations of the government as a whole. "Other Audit Observations" reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

34.3 This chapter covers the following:

- Atomic Energy of Canada Limited records its decommissioning and site remediation liabilities;
- managing suspected abuse and fraud in the Employment Insurance program;
- lack of clarity on basis used in setting Employment Insurance premium rates; and
- federal investment in Big Science: the Sudbury Neutrino Observatory.

34.4 Although each audit observation reports matters of significance, they should not be used as a basis for drawing conclusions about matters not examined.

Introduction

34.5 This chapter contains matters of significance that are not included elsewhere in the Report and that we believe should be drawn to the attention of the House of Commons. The matters reported were noted during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

34.6 Section 7(2) of the *Auditor General Act* requires the Auditor General to call to the attention of the House of Commons any significant cases where he has observed that:

- accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue, and to ensure that expenditures have been made only as authorized;
- money has been expended other than for purposes for which it was appropriated by Parliament;
- money has been expended without due regard to economy or efficiency;
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
- money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

34.7 Each of the matters of significance reported in this chapter was examined in accordance with the legislative mandate, policies and practices of the Office. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The matters reported should not be used as a basis for drawing conclusions about matters not examined.

This chapter contains matters of significance that are not included elsewhere in the Report.

Atomic Energy of Canada Limited

AECL records its decommissioning and site remediation liabilities

We are pleased to report that Atomic Energy of Canada Limited (AECL) has recorded its decommissioning and site remediation liabilities in its 1999-2000 financial statements. For the first time since 1992, our annual Auditor's Report gives an unqualified opinion on AECL's financial statements. In accordance with generally accepted accounting principles, the Corporation recorded a liability of $377,500,000 representing its estimate, as at 31 March 2000, of the present value of future expenditures.

Atomic Energy of Canada Limited has recorded its decommissioning and site remediation liabilities in its 1999-2000 financial statements.

Background

34.8 Atomic Energy of Canada Limited (AECL) is a parent Crown corporation that reports to Parliament through the Minister of Natural Resources. AECL develops, markets and manages the construction of power and research reactors and carries out related research. It manages nuclear waste at its laboratory sites in Chalk River, Ontario and Pinawa, Manitoba. In our 1992 annual Auditor's Report, we first brought to Parliament's attention the fact that AECL faced significant decommissioning and site remediation liabilities that were not recorded in its financial statements.

34.9 Subsequently, AECL disclosed these liabilities in the notes to its financial statements for the years ended 31 March 1993 through 31 March 1999. However, we were not able to provide an unqualified opinion on the reliability of the financial statements to the users of the statements, in particular, the Minister of Natural Resources, the government, members of Parliament, and the public.

34.10 We also reported, in both our 1993 and 1996 reports of the Auditor General, that AECL had not provided for these liabilities. The magnitude of the decommissioning and site remediation liabilities is such that they may place significant demands on government resources in the future. Generally accepted accounting principles require that the costs be recognized over the estimated lives of the corresponding facilities. This is important accountability information for Parliament. It is also important that AECL adhere to the *Financial Administration Act,* which requires parent Crown corporations to prepare annual financial statements in accordance with generally accepted accounting principles.

34.11 In addition, our 1998 to 2000 Auditor's Reports brought an "other matter" to Parliament's attention. Since 1994-95, the Governor in Council has not approved AECL's five-year corporate plans, and AECL continues to work with the government to address budget and policy issues affecting the Corporation.

34.12 The government has indicated that it expects to approve AECL's five-year corporate plan for 2001-02 to 2005-06.

Conclusion

34.13 We are pleased to report that AECL has changed its accounting policies to comply with generally accepted accounting principles and has recorded its decommissioning and site remediation liabilities in its 1999–2000 financial statements. For the first time since 1992, our annual Auditor's Report gives an unqualified opinion on AECL's financial statements.

Audit Team

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Canada Customs and Revenue Agency and Human Resources Development Canada

Dealing with suspected abuse and fraud in the Employment Insurance program

Human Resources Development Canada (HRDC) and the Canada Customs and Revenue Agency (CCRA) have known for many years of the abuse and suspected fraud in the Employment Insurance program in British Columbia relating to false Record of Employment forms. HRDC and the CCRA have been unsuccessful in curtailing these abuses. An action plan needs to be implemented by HRDC and the CCRA to adequately deal with suspected abuse and fraud of the Employment Insurance program.

Background

34.14 The *Employment Insurance Act* is administered and enforced jointly by the Canada Employment Insurance Commission of Human Resources Development Canada (HRDC) and the Canada Customs and Revenue Agency (CCRA), previously known as Revenue Canada. HRDC administers the entire Act except for Parts III, IV and VII, which are the sole responsibility of the CCRA. HRDC is responsible for paying out employment insurance (EI) benefits and the CCRA is responsible for insurability provisions and collecting EI premiums.

Human Resources Development Canada (HRDC) and Canada Customs and Revenue Agency (CCRA) jointly administer and enforce the *Employment Insurance Act*.

34.15 The legislative changes, enacted in 1971, were structured so that only one federal government agency would be responsible for remittance and ensuring proper withholding by employers of payroll deductions such as income tax, Canada Pension Plan (CPP) contributions and EI premiums. The CCRA is responsible for resolving any insurability employment questions through insurability rulings. This allows a uniform interpretation and application of the coverage provisions of the Canada Pension Plan and the Employment Insurance program.

34.16 In 1999-2000, HRDC requested nationally approximately 27,000 insurability rulings related to EI benefits from the CCRA; 2,000 of those requests originated from HRDC's Investigation and Control Directorate. The Directorate's mandate is to prevent, deter and detect abuse and fraud committed against the programs and services that pay income benefits administered under the *Employment Insurance Act* and its regulations.

34.17 If during an investigation, the Directorate determines that a Record of Employment form is inaccurate, questionable or false in relation to a period of employment and/or insurable earnings, it requests an insurability ruling from one of CCRA's local CPP/EI rulings units. In cases of insurability, once HRDC requests an insurability ruling, it ceases its investigation. The Department cannot deny or recover EI benefits without an insurability ruling. The Record of Employment form is an important document to the Employment Insurance program. It is prepared by employers to reflect the actual hours or weeks and earnings of an employee prior to employment termination. An employee must submit this form along with their EI application to qualify for and obtain EI benefits.

Scope

34.18 The Office of the Auditor General received a complaint alleging

extensive abuse and fraud of the Employment Insurance program by two industries in British Columbia's lower mainland. Further, the complainant alleged that these problems were occurring in other industries. The allegations stated that employers were issuing false Record of Employment forms to employees or other individuals so they could obtain EI benefits fraudulently. The complainant also alleged that HRDC and the CCRA have been aware of this fraud for over 20 years but have not taken appropriate action to stop it.

34.19 The scope of our examination was limited to how HRDC and the CCRA examined, investigated and responded to these alleged practices of abuse and fraud of the Employment Insurance program in British Columbia. We inquired into suspected false EI benefit claims relating to questionable Record of Employment forms. We interviewed HRDC staff and officials at various local British Columbia offices and at headquarters. We also interviewed CCRA staff and officials at the Vancouver Tax Service Office and at headquarters.

34.20 We reviewed HRDC investigation files involving suspected false Record of Employment forms issued by one industry in British Columbia. Our review encompassed over 250 HRDC claimant investigations relating to Record of Employment forms issued by four separate employers. We also reviewed the associated CCRA insurability rulings connected to these HRDC investigations involving over 250 CCRA insurability rulings. The period reviewed was from 1997 to 2000.

34.21 The findings in this audit are based on our review of HRDC's and CCRA's handling of suspected abuse and fraud in the Employment Insurance program in British Columbia relating to Record of Employment forms. Therefore, the findings should not be applied nationally.

Issues

34.22 HRDC officials have been aware of these alleged fraudulent practices for over 20 years. The Department advised us that they have undertaken initiatives, during the early 1980s and 1990s, to combat the abuse with mixed results. In 1997 they participated in a joint initiative with the Employment Standards Branch of British Columbia's Ministry of Labour, to deal with the alleged extensive abuse of British Columbia's Employment Standards and the Employment Insurance program by one industry in British Columbia. The initiative involved compliance investigations, educational activities for the industry and community awareness sessions.

34.23 CCRA staff and officials are aware of these suspected fraudulent practices that have been going on for many years. The CCRA informed us that in 1999, it joined the HRDC and British Columbia Ministry of Labour, Employment Standards Branch initiative and assigned some resources which included participating in joint interviews. A recent Tax Court of Canada decision will prevent the CCRA from continuing to participate in these joint interviews. The CCRA recently created a new job description called the Complex Case and Technical Review Officer and appointed one of its British Columbia rulings officers to this position. The responsibilities of this position include assisting and participating in joint efforts with HRDC in the resolution of complex cases where EI fraud is suspected.

HRDC and CCRA officials for many years have been aware of suspected fraudulent practices related to false Record of Employment forms.

34.24 We determined that there was abuse of the Employment Insurance program in British Columbia and that EI benefits were obtained through the use of false Record of Employment forms. This audit makes observations on the processes and practices used by HRDC and the CCRA to deal with the cases of suspected abuse and fraud in the Employment Insurance program in British Columbia.

Legislative guidance on rulings and appeals is silent

34.25 The *Employment Insurance Act* addresses the division of HRDC and CCRA roles in the administration of the insurability issue. However, it is unclear on how rulings are to be made and appeals are to be decided; the process is not transparent in our view. The Act allows the Minister of National Revenue to make regulations, which would regulate the procedure to be followed in making rulings or deciding appeals. To date, no regulations have been issued, but the CCRA does have internal administrative guidelines for making rulings and deciding appeals.

The *Employment Insurance Act* is unclear on how rulings are to be made and appeals are to be decided.

Lack of guidance and training

34.26 CCRA's ruling administrative guidelines are based on the premise that claimants and employers are honest. We reviewed CCRA's rulings training and policy manuals and found no information providing guidance on dealing with cases of suspected abuse or fraud.

34.27 In our opinion, rulings officers lack the guidance, training and experience necessary to handle cases of suspected abuse and fraud.

Limited review and examination

34.28 HRDC's Investigation and Control Directorate investigates EI claims where abuse and fraud is suspected. In investigations involving Record of Employment forms, HRDC's investigations include interviewing in person claimants and employers and examining business records. If sufficient evidence is obtained to question the validity of the Record of Employment forms, the Directorate ceases its investigation and requests an insurability ruling from the CCRA. In these insurability cases, the Directorate never completes an in-depth investigation as the matter is referred to the CCRA. We observed that, prior to referring the matter to the CCRA, the depth of the HRDC investigation varied from case to case.

34.29 Without an insurability ruling, HRDC cannot adjust a claimant's insurable hours, weeks or earnings even if it has evidence that the information is inaccurate or false. The one exception is if HRDC can prove that the claimant performed no work, making the Record of Employment totally false. However, the claimant or employer can still request an insurability ruling. In these cases, HRDC did not prove that the Record of Employment forms were totally false and therefore requested insurability rulings.

34.30 For an insurability ruling, CCRA rulings officers review information and documents submitted, interview claimants and employers usually by telephone or through a questionnaire, and may request photocopies of documents. We found that rulings officers seldom leave their offices to visit business premises, examine original business records or meet claimants or employers. Further, in interviews where there was a language barrier, CCRA rulings officers almost always used the claimants' family and friends as translators.

34.31 We were informed that rulings officers are not trained as auditors or investigators. Nor do they use the expertise of investigators or forensic accounting specialists, who are available through CCRA's special investigation units. In CCRA rulings that we reviewed, investigators or other specialists were not used.

34.32 CCRA's budgeted time standard to complete an insurability ruling is four and a half hours. CCRA officials told us that they use the time standard only as a guideline to allocate resources. Rulings officers advised us that they take between three to eight hours to complete a ruling that HRDC's Investigation and Control Directorate requests. Our review of over 250 CCRA insurability rulings on claimants relating to four employers,

determined that rulings officers averaged five and a half hours to complete each ruling where abuse and fraud was suspected. In our opinion, this is insufficient time to adequately review, examine and reach a determination in cases where abuse and fraud is suspected. We strongly recommend that the CCRA re-examine the resources required to adequately deal with EI claims where abuse or fraud is suspected.

Evidence assessed differently

34.33 HRDC submits, to the CCRA rulings officer, information obtained during its investigation including interview notes with claimants and employers, copies of documents, and any working papers and reports.

34.34 CCRA rulings officers advised us that they must verify all facts provided by HRDC. They do this by interviewing claimants and employers and by asking similar questions to those asked by HRDC. If oral statements from claimants differ from those initially given to HRDC, and the rulings officers cannot resolve the contradiction, they will accept the new statement without any additional supporting evidence. Rulings officers advised us that the claimant and employer statements differed frequently from those initially given to HRDC. While rulings officers consider and weigh the evidence provided by HRDC, they almost always give greater weight to evidence they have personally obtained. In our opinion, this practice could lead to the credibility of evidence not being assessed adequately.

34.35 HRDC is not given the opportunity to make full representation, as it is not informed of any new oral or documentary evidence submitted. For example, rulings officers give claimants and employers the opportunity to rebut any statement they initially provided to HRDC and any other evidence submitted by HRDC. However, HRDC is not given the opportunity to comment or rebut any new statements or documents provided by claimants or employers to the CCRA. Rulings officers are not required to provide the reasons for their ruling decisions to HRDC investigators, claimants or employers and they rarely do.

Insufficient evidence to substantiate ruling

34.36 Our review of CCRA insurability rulings files determined that there was insufficient evidence, in many of the files, to substantiate the ruling decisions. Further, we determined that in many files the evidence contradicted the ruling.

We determined that in many files the evidence contradicted the CCRA ruling.

34.37 We also determined, from reviewing insurability appeals files, that many files had insufficient evidence to support the appeals decisions. We only reviewed the appeals decisions on claimants from one of the employers as the other cases were still unresolved in appeals at the time of our review.

Appeals Process

34.38 Claimants, employers or HRDC can appeal a ruling decisions to CCRA's Appeals Division. This is an appeal to the Minister of National Revenue. The mandate of the appeals officer is to provide a fair and impartial review of cases. Claimants and employers frequently appeal ruling decisions to the Minister. HRDC advised us that they generally accept CCRA ruling decisions and they rarely appeal.

34.39 The appeals process starts the re-examination of all evidence included in the rulings file. The evidence is reviewed and verified, and the claimants and employers are interviewed by telephone or through a questionnaire. This is the third time that claimants and employers are interviewed and asked similar questions. Appeals officers do not leave their offices to visit business premises, to review original business records or to meet claimants and employers. Also, appeals policy and administrative manuals do not

Claimants and employers are interviewed and asked similar questions three times.

address cases of suspected abuse or fraud. Appeals officers lack the guidance, training and experience to deal with cases where fraudulent activities are suspected.

34.40 Appeals officers advised us that claimant and employer statements often differ from those taken by rulings officers and HRDC. Appeals officers proceed on the evidence that they have personally obtained or verified. They place less weight on the evidence obtained by rulings officers or HRDC investigators, as they consider it hearsay. Appeals officers do not give HRDC the opportunity to make further representation to rebut new statements and evidence. Without the knowledge of the additional evidence submitted, HRDC is not in any position to make representation as permitted by section 93 of the *Employment Insurance Act*. Section 93 allows parties an opportunity to make representation to protect their interests.

There were substantial delays in processing and completing suspected abusive and fraudulent employment insurance claims.

34.41 Claimants, employers or HRDC can appeal the appeals decision to the Tax Court of Canada. Claimants and employers frequently appeal to the Tax Court. HRDC reports that they accept CCRA appeals decisions and they never appeal to the Tax Court.

34.42 Once an appeal is made to the Tax Court, the CCRA assigns a designated appeals officer to review the file and determine whether the CCRA should defend its position in the Tax Court. The designated appeals officer makes his decision without further representation from HRDC. In our opinion, it would be reasonable to expect that HRDC, as an interested party, be informed of any representations made and be given the opportunity to respond, prior to the decision of the designated appeals officer.

Delays in the process

34.43 There were substantial delays in processing and completing suspected abusive and fraudulent EI claims through HRDC and the CCRA. The majority of the files that we reviewed were at various stages in the appeals process after many months or years. Delays in the process could allow claimants to continue obtaining EI benefits for which they may not be entitled, or delay benefits unduly where a person is eligible, or postpone the recovery of EI overpayments. The CCRA has informed us that HRDC has started informing them of projected work relating to large fraud investigations. This will allow the CCRA to efficiently deal with the workload.

Prosecutions

34.44 The CCRA has never prosecuted employers or claimants under the offence subsection 106(4) of the *Employment Insurance Act*. This subsection encompasses the making, participating, assenting to, or acquiescing in the making of false or deceptive statements in a return, certificate, statement or answer filed or made as required. Further, HRDC has not prosecuted any employers under its offence sections in British Columbia in the last three years, but it has levied some administrative penalties.

Conclusion

34.45 The findings in this audit are based on our review of HRDC's and CCRA's handling of suspected abuse and fraud in the Employment Insurance program in British Columbia relating to Record of Employment forms. Therefore, the findings should not be applied nationally.

34.46 CCRA's rulings and appeals officers' lack of guidance, training, experience and expertise, combined with

the existing limited review and examination and the methods used to assess evidence, are not conducive to obtaining accurate and complete facts, in order to reach supportable conclusions when abuse or fraud are suspected.

34.47 It would be reasonable that all affected parties in the insurability ruling process be given the opportunity to make a full and proper representation during the rulings and appeals process. To this end, they need to be fully informed by the CCRA of all evidence and representations made. This would allow them to make an informed decision on any representation they may wish to make to protect their interests.

34.48 The *Employment Insurance Act* is not clear on how insurability rulings are to be made and how appeals are to be decided. To date no regulations have been made by the Minister of National Revenue in this area and guidance to the parties is limited. Therefore in our view, the process is not transparent.

34.49 Based on the findings of this audit (see paragraph 34.45), HRDC and the CCRA need to implement an action plan that adequately deals with suspected abuse and fraud in the Employment Insurance program. They need to ensure that a concerted effort is applied to detection, prevention and deterrence of cases of suspected abuse and fraud.

Canada Customs and Revenue Agency's response: *We recognize the opportunity to improve our ability to deal with complex cases involving a suspicion of fraud. We have already created the position of Complex Case and Technical Review Officer to deal with complex cases where Employment Insurance (EI) fraud is suspected and have improved communications with HRDC on their work plans for fraud investigations. We communicate with HRDC on a regular basis on ways of improving our handling of this small but challenging portion of our rulings workload. Opportunities for improving rulings officers' expertise in handling cases involving EI fraud are also being pursued through a workshop on dealing with suspected EI fraud. In addition, rulings officers with the necessary third language capability are now being assigned to cases involving language barriers.*

The objective of the EI Rulings Program is to facilitate and encourage voluntary compliance in the determination of employment status and insurable employment and earnings by providing clients with reliable EI rulings. Rulings officers carefully research, analyze and weigh the evidence and facts of each particular case in order to make a just and equitable decision on insurability. The role of appeals officers is to provide a fair and impartial administrative review of appeals on insurability issues. Neither the rulings officer nor the appeals officer is performing an investigation or enforcement function in suspected cases of abuse.

As stated in the audit note, once HRDC requests an insurability ruling from the CCRA, it normally ceases its investigation of the EI claim in question and provides all available information to the CCRA. The CCRA then carries out whatever review and information gathering is necessary to complete the insurability ruling. In the case of an appeal of an insurability ruling, any documentation that has been gathered by HRDC and Rulings is included in the rulings file, which is forwarded to Appeals.

It is important for rulings officers and appeals officers to maintain their independence and impartiality in making their decisions. Therefore, great care must be exercised in involving HRDC in the process of issuing a ruling or deciding an appeal. The separate and independent roles of the CCRA and HRDC are set out in the Employment Insurance Act. *The need to retain this independence was*

recently reinforced in the Sharbells Fish Mart decision of the Tax Court of Canada. The provisions of the Employment Insurance Act *and the recent Tax Court of Canada decision underline the need to guard against involving HRDC in the determination of insurability in a manner that may taint the process.*

The Employment Insurance Act *sets out both the rulings and appeals processes. Subsection 90(1) of the* Employment Insurance Act *states the areas where the Minister of National Revenue can rule and subsection 90(2) sets out the time frames. The administrative procedures and time frames required to appeal a ruling to the Minister of National Revenue and to appeal a ministerial decision to the Tax Court of Canada are set out in sections 91 to 94 and sections 103 to 105 of the* Employment Insurance Act.

The Office of the Auditor General is concerned that the Employment Insurance Act *is unclear on how rulings are to be made and appeals are to be decided and that these processes are, therefore, not transparent. To ensure that both workers and payors are fully aware of the elements involved in determining insurability issues, the CCRA has published guides and brochures, which are available both in paper copy and on the Internet. Information on the appeals process is provided to the public in a plain language pamphlet entitled, "Your Appeal Rights: Employment Insurance and Canada Pension Plan Coverage."*

We have also taken steps to gauge how effective these materials are in achieving transparency. A 1998 survey of Canada Pension Plan/Employment Insurance (CPP/EI) appellants indicated that most (80 percent) felt they had enough information to file an appeal and were generally satisfied with the explanation of the CPP/EI appeal process.

Government regulatory policy requires that a problem of risk exists sufficient to justify federal intervention. We feel that between the provisions of the Employment Insurance Act *and the information provided in CCRA publications, the workings of the rulings and appeals processes are explained in a clear and transparent manner. Therefore we believe that the development of regulations is not justified.*

Human Resources Development Canada's response: *The Department shares the Office of the Auditor General's concern and continues to take action including interaction with the CCRA at local, regional and national levels to address potential fraud and abuse within the particular industries in lower mainland British Columbia.*

A recent Tax Court of Canada decision and the subsequent Department of Justice legal opinion no longer permit us to do joint interviews with the CCRA in order to maintain the independence of both departments in this process. However, HRDC and the CCRA are committed to improving existing methods and implementing initiatives to deal adequately with this particular industry and are collaborating to that end.

HRDC has completed a number of recent meetings and a workshop with the CCRA to discuss the issues pertaining to insurability rulings, large investigations and improving the working relationship between HRDC and the CCRA. The CCRA has created the position of Complex Case and Technical Review Officer. The Officer is trained in investigative activity and will be more able to deal with matters concerning major employment insurance investigation cases. Joint training exercises between HRDC investigators and the new CCRA Complex Case and Technical Review Officer are being planned. This will further facilitate improvements in the way the two groups work together. We have agreed to promote

secondments between the two groups to ensure that personnel are familiar with both organizations and improve the interactive working relationships.

These initiatives are already included in HRDC's Action Plan and others will be added to ensure that suspected abuse and fraud are properly dealt with.

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Human Resources Development Canada and the Canada Employment Insurance Commission

Lack of clarity on basis used in setting Employment Insurance premium rates

The Canada Employment Insurance Commission has not explained how it sets premium rates under the Employment Insurance Act. *These rates have resulted in the rise of the Employment Insurance Account's accumulated surplus. Although it is notional in nature, the accumulated surplus balance has increased by $7.2 billion for the year to $28.2 billion at 31 March 2000. This is almost twice the maximum amount considered sufficient by the Chief Actuary of Human Resources Development Canada as a reserve for the Account. An appropriate explanation is necessary to clarify, for Parliament and the public, how the Commission exercised its discretion in setting premium rates under the* Employment Insurance Act *and to ensure that the intent of the Act is observed.*

Background

34.50 The *Employment Insurance Act* requires the Canada Employment Insurance Commission to set Employment Insurance (EI) premium rates at a level that it considers will, to the extent possible, ensure enough revenue to pay Employment Insurance program costs while maintaining relatively stable rates over a business cycle. The rate must be approved by the Governor in Council at the recommendation of the ministers of Human Resources Development and of Finance.

34.51 In his 2000 report, the Chief Actuary of Human Resources Development Canada has estimated that a reserve of $10 billion to $15 billion (attained just before an economic downturn) should be sufficient to guarantee the stability of EI premium rates over a business cycle. In the meantime, the Employment Insurance Account's accumulated surplus has grown to $28.2 billion, almost twice the maximum amount considered sufficient by the Chief Actuary.

34.52 The report of the Auditor General on the financial statements of the Employment Insurance Account for the years ended 31 March 1999 and 31 March 2000 as well as the Auditor General's November 1999 Report to Parliament drew attention to the size of the accumulated surplus, its rate of growth and the lack of disclosure of factors that were considered in determining an appropriate level of reserve. The Account's accumulated surplus amounted to $28.2 billion at 31 March 2000.

Issues

34.53 The Employment Insurance Account records the revenues and expenses of the EI program. Amounts received under the Act are deposited to the government's Consolidated Revenue Fund; EI program costs are paid out of that Fund. The EI Account is part of the Consolidated Revenue Fund and any accumulated surplus or deficit is notional in nature. Since 1986, the Account has been consolidated in the Summary Financial Statements of Canada to conform with the accounting standards of the Canadian Institute of Chartered Accountants (CICA).

34.54 The balance of the Account's accumulated surplus or deficit should serve as an important factor in setting EI premium rates, because it helps determine the level of premiums necessary to provide stable rate levels over time. Yet, the 1999 premium rates were set at a level higher than that estimated as necessary by the Chief Actuary, contributing to a continued rise in the level of reserve.

34.55 Moreover, the EI Account's operating surplus has a direct impact on the government's annual surplus. The Account's operating surplus, in effect, provides a source of revenue and cash flow for the government and helps reduce its net debt. Without the EI Account surplus and accumulated surplus at 31 March 2000, the government's annual surplus would have been $7.2 billion lower and its net debt $28.2 billion higher. Exhibit 34.1 shows the impact of the EI Account surplus and accumulated surplus on the government's surplus or deficit and net debt since 1996.

34.56 The 2000 EI premium rate for employees was set at $2.40 per $100 of insurable earnings; the employer rate was set at $3.36. The Chief Actuary estimated that employee premium rates set between $1.70 and $2.20 would meet the long-term costs of the Employment Insurance

The Employment Insurance Account's operating surplus, in effect, provides a source of revenue and cash flow for the government and helps reduce its net debt.

Exhibit 34.1

Impact of Employment Insurance Account Surplus and Accumulated Surplus



Source: Employment Insurance Account and the Public Accounts of Canada

program. In its planning documents, Human Resources Development Canada forecast that the accumulated surplus would reach $34.6 billion by 31 March 2001. As at 31 August 2000, the unaudited balance of the Account's accumulated surplus was $32.4 billion, a five-month increase of $4.2 billion.

34.57 The Standing Committee on Public Accounts recommended in February 2000 that the government disclose to Parliament the factors used to set EI premium rates and to determine the appropriate level of reserve for the EI Account. In July 2000, the government responded that it would examine a Standing Committee on Finance recommendation that set out an approach to set EI premium rates. On 28 September 2000, the government introduced Bill C-44 that set the 2001 EI premium rate for employees at $2.25. The Bill provides an interim measure for setting EI premium rates while the government reviews the rate-setting process. The review is expected to be completed by 2003.

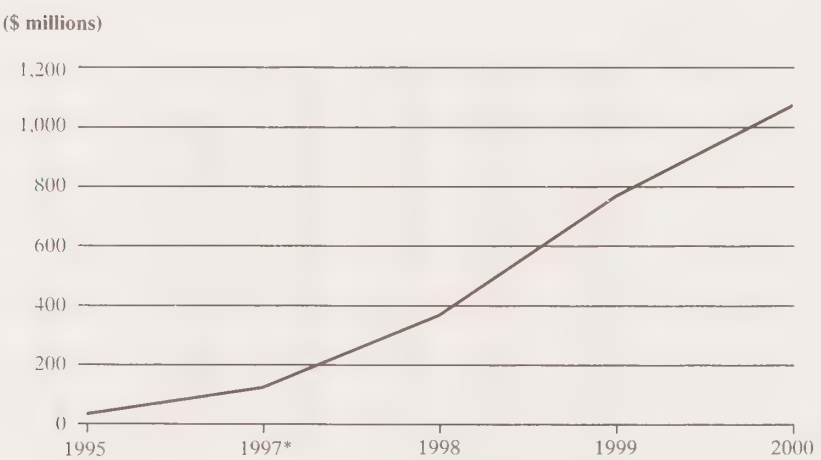
34.58 The government and the Canada Employment Insurance Commission need to provide Parliament and the public with a better understanding of how Employment Insurance premium rates under the *Employment Insurance Act* are set. This would also help ensure that the intent of the Act for setting EI premium rates is being observed.

34.59 Interest is calculated on the balance of the Account and the amount of such interest revenue in recent years has been significant. For example, interest revenue for 1999-2000 totalled $1.1 billion or approximately 15 percent of the Account's operating surplus. As at 31 March 2000, interest revenue accounted for $2.4 billion of the $28.2 billion in accumulated surplus of the EI Account. Exhibit 34.2 shows the growth of interest revenue over the past five years. Since it increases the Account's accumulated surplus, interest revenue is another factor that impacts the setting of EI premium rates.

34.60 Due to the size of the Account's accumulated surplus, a change in interest rate can have a significant impact on the Account's interest revenue. The Act provides for the payment of interest of the balance in the EI Account but does not prescribe a method to establish the interest rate. The interest rate for the Account is calculated monthly at 90 percent of the previous month's average three-month Treasury bill rate.

Exhibit 34.2

Interest Revenue Growth for the Employment Insurance Account



Source: Employment Insurance Account

* For a 15-month period

34.61 The method of calculating EI interest rate has not changed since its inception in 1970. Since then, there have been major revisions to the Act, including the most recent reform in 1996. In view of its impact on the Account's surplus, the present method of calculating EI interest rate needs to be reviewed to ensure that it remains appropriate. In addition, the government needs to explain to Parliament and the public the reasons for choosing its method of calculation.

Conclusion

34.62 The Employment Insurance program is one of the government's largest and most visible programs. It is important that the government and the Canada Employment Insurance Commission clarify and disclose the way the *Employment Insurance Act* is interpreted with regard to setting premium rates. The government also needs to disclose how it establishes the Employment Insurance Account's interest rate.

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Federal Investment in Big Science Projects

The Sudbury Neutrino Observatory

Scientific projects that rely on large, expensive facilities, or on large groups of people working toward a common goal are often called Big Science. The federal government has been involved in Big Science projects and will likely continue to fund them in Canada and abroad.

This audit looked at the decision-making and reporting processes used by federal entities in a particular Big Science project — the Sudbury Neutrino Observatory (SNO). The observatory is used to detect interactions between solar neutrinos and matter. It was built inside a 10-storey cavity located two kilometres below ground in an operating mine near Sudbury, Ontario.

We found that when funding approval was sought, Cabinet was not fully informed of the likely cost of the SNO to the federal government.

We identified some lessons learned for improving decision making in the federal government for Big Science projects:

- *ensure that complete and accurate information is presented so that government can properly assess the costs and benefits of projects;*
- *establish an inter-departmental framework for handling projects; and*
- *improve accountability for federal investments in projects.*

Background

Previous science and technology audits

34.63 This audit is the latest in a series of reports by our Office on the federal government's science and technology activities. These reports have promoted a mission-driven, results-based approach to federal spending on science and technology.

34.64 In 1994, we audited the science and technology activities of several departments and agencies and identified a number of concerns relating to management of research. At a government-wide level we identified the need for clear priorities, direction and performance expectations; effective co-ordination and oversight; leadership that transcends departmental mandates; and better information for Parliament and the public on science and technology activities and performance. At a department-wide level, we identified, among other things, the need for goals that focus more on results, and better project selection, review and management practices.

34.65 In 1996, partly in response to our audits, the federal government released its Science and Technology for the New Century: A Federal Strategy (S&T Strategy). In 1998, we reviewed the government's progress in implementing the S&T Strategy. We reported that the establishment of elements required to improve the management of federal science and technology activities was not proceeding as intended. We identified three areas requiring special attention:

- planning, setting priorities and performance reporting for results-based research;
- use of external peer review to ensure scientific excellence; and

- development of partnership strategies inside and outside government.

34.66 In November 1999, we identified a framework of attributes that can be used to assess how well research organizations are managed. With guidance from the S&T Strategy and other sources, we created a set of ideal outcomes for research management. The attributes emphasize the importance of managing research for results.

What is Big Science?

34.67 Scientific projects that rely on large facilities, or on large groups of people working toward a common goal, are often called Big Science. Big Science projects usually involve international partnerships due to their high costs.

34.68 Canada's involvement in Big Science projects that require large facilities is mainly in two fields: astronomy and physics. Exhibit 34.3 shows some past and current Big Science projects with which the federal government has been involved.

34.69 Big Science projects continue to seek funding. The most recent project is the Canadian Light Source, which produces an extremely bright light that studies matter at the atomic scale somewhat like a giant microscope. The interaction between various wavelengths

Scientific projects that rely on large facilities, or on large groups of people working toward a common goal, are often called Big Science.

Exhibit 34.3

Some Past and Current Big Science Projects Requiring Large Facilities With Which the Federal Government Has Been Involved

Field	Projects and Location	Description	Status
Astronomy and Solar System Exploration	Canada-France-Hawaii Optical Telescope (Hawaii)	A 3.6-metre telescope that explores the universe.	In operation since 1978.
	Gemini Twin Optical Telescopes (Hawaii, Chile)	An optical-infrared astronomical facility with two eight-metre telescopes that explore the universe.	Construction to be completed in 2000-01.
	James Clerk Maxwell Radio Telescope (Hawaii)	A radio telescope, 15 meters in diameter that searches and analyses naturally-emitted microwaves in the universe.	In operation since 1987.
Fusion	Tokamak (Varennes, Quebec)	A fusion reactor that researches fusion technology for the generation of electricity.	Closed in 1998 for lack of operation funding.
Fission	National Research Universal (NRU) Reactor, Atomic Energy of Canada Limited (Chalk River, Ontario)	A high-flux reactor that researches fuels and materials for the CANDU reactor, and basic materials using neutrons.	In operation until 2005.
Materials Research	Canadian Light Source (Saskatoon, Saskatchewan)	A giant high-precision microscope, producing an extremely bright light, that studies matter at the atomic scale.	Funding granted in 1999.
Subatomic Physics	Tri-University Meson Facility (TRIUMF) - (Vancouver, British Columbia)	A cyclotron that studies the structure of matter by accelerating ions up to 75 percent of the speed of light. It detects sub-atomic particles and measures their fundamental properties.	In operation since 1974.
	Sudbury Neutrino Observatory (SNO) - (Sudbury, Ontario)	For a description, see paragraphs 34.85 to 34.89.	In operation since 1998.

Source: Compiled by the Office of the Auditor General

of light and atoms in all types of matter will be used to study the structure of complex molecules, as well as track the presence and chemistry of particular atoms. The Canadian Light Source is being built in Saskatoon, Saskatchewan. Its capital costs are currently estimated at $173 million. Exhibit 34.4 shows the planned funding sources for the Canadian Light Source.

34.70 Two other Big Science projects seeking funding are the Canadian Neutron Facility for Materials Research and Iter, an international fusion energy research and development centre.

34.71 The Canadian Neutron Facility for Materials Research is a joint proposal of Atomic Energy of Canada Limited and National Research Council Canada. The facility would house a nuclear reactor that generates beams of neutrons to help understand the properties of advanced materials, such as polymers, metals, ceramics, high-temperature superconductors and biological materials. The cost of the reactor and program facilities is currently estimated at $388 million.

34.72 Iter, a collaboration among several countries, is seeking to build a facility that researches fusion energy. Iter Canada, a not-for-profit consortium of private sector, labour and government organizations, was created to supply Canadian expertise to the international design effort. It is also promoting Canada's bid to host the Iter facility. An international competition will select a host country in 2001-02. It is estimated that building costs will be between $6 billion and $10 billion over 8 to 10 years and operating costs will be $6 billion over 20 years. The Canadian contribution to the construction costs is currently estimated at $1.5 billion in cash and in kind.

Exhibit 34.4

Planned Funding Sources – Canadian Light Source

Funding Source	Amount ($ millions)
Canada Foundation for Innovation	56.4
Federal departments (including Western Economic Diversification Canada, National Research Council Canada, Natural Resources Canada)	28.3
Other (including the Government of Saskatchewan, Canadian universities, the City of Saskatoon, SaskPower Corp.)	56.2
In-kind contributions	32.6
Total	**173.5**

Attempts to manage federal involvement in Big Science

34.73 There have been discussions on how to manage federal support for Big Science for many years. Except for a brief period in 1990-91 when the Interdepartmental Committee for Big Science existed, the government has not had a structure to manage the approval, implementation and reporting of Big Science projects involving several departments and agencies.

34.74 In 1989, under the auspices of the National Advisory Board on Science and Technology, the committee on Big Science noted that if Canada was to continue its technological development among industrialized nations, it needed to invest in Big Science. The question was not whether the federal government should invest in Big Science, but rather how much it should invest and in what areas.

34.75 The committee concluded that because Big Science projects are expensive, Canada must choose its investments carefully. It was also concerned about Canada's ability to make appropriate investments in Big Science.

> A common characteristic of Big Science projects is that they are too large to be handled within the budgets of our established scientific funding agencies, i.e., federal departments, institutes and granting councils. Thus,

these bodies cannot approve the programs and this has led to the situation where Big Science projects do not have a forum to arbitrate priorities and make the decision on whether or not they will go ahead.

34.76 The committee added that the financial commitments required for Big Science projects and the follow-on funding for operational costs make it an urgent issue for government to resolve.

34.77 The committee made a series of recommendations on handling Big Science proposals in Canada. It noted:

> ...the problem is not just a matter of selecting between proposals, it is also an issue of providing leadership — leadership to stimulate and shape proposals that, when implemented, will be key steps toward realizing our vision of Canada.

The committee recommended that:

> ...an organization must be charged with the task of formulating Canada's scientific priorities and providing leadership by setting the framework for selection of all major federally funded science and technology initiatives...currently...the various line departments can commit expenditures to major projects that, while individually deserving, may be of lower priority than the needs of Canada in other areas. These decisions must be made in the context of Canada's total needs and opportunities.

34.78 Subsequently, in 1990, the Interdepartmental Committee for Big Science was created to provide a forum to review Big Science projects, establish the policy context and priorities, and provide for funding and participation recommendations to Ministers for subsequent consideration by Cabinet. After a little more than a year, the Committee stopped meeting.

34.79 In its 1996 S&T Strategy, the federal government recognized the need for new institutions and mechanisms to improve the management of its science and technology investments. The S&T Strategy conveyed the government's intention to:

- improve the co-ordination of its science and technology activities among federal departments and agencies;
- increase collaboration on major crosscutting issues; and
- put in place a systematic, government-wide co-ordination mechanism so that all players are represented.

The measures were intended to create synergies and efficiencies in the government's overall science and technology effort.

34.80 In 1998, the government created the Council of Science and Technology Advisors. It is chaired by the Secretary of State for Science, Research and Development and comprises representatives from the advisory committees of federal science-based departments and agencies. The Council, when asked by the government, examines and advises on science and technology issues that meet one or more of the following criteria:

- require government-wide strategic attention;
- offer opportunities for interdepartmental co-operation and multidisciplinary collaboration; and
- are important to a number of federal departments and agencies (for example, polar science, enabling technologies and Big Science).

34.81 To date, the Council of Science and Technology Advisors has not examined the issue of Big Science. However, it has studied science advice and the role of government in the performance of science and technology.

34.82 In 1997, the government established the Canada Foundation for

There have been discussions on how to manage federal support for Big Science for many years.

Innovation. It is an independent corporation that provides grants to increase the capability of carrying on high-quality research in Canada. The government has since transferred $1.9 billion to the Foundation. The Foundation's funding of the Canadian Light Source shows that it can participate in Big Science projects (Exhibit 34.4). This further adds to the complexity of managing federal involvement in Big Science.

Scope

34.83 As part of this audit, we reviewed the government's involvement in the Sudbury Neutrino Observatory (SNO) to determine if there were any lessons to be learned for improving federal decision making for Big Science projects. Our audit objective was to determine if the departments and agencies involved with the project had properly disclosed to Cabinet and Parliament the full costs and likely benefits of the SNO.

34.84 We did not look beyond the decision-making and reporting processes used by federal entities. For example, we did not audit the construction and operation of the facility or the quality of the science carried out at the SNO. Nevertheless, we noted that various international and national scientific bodies have endorsed the project.

Issues

The Sudbury Neutrino Observatory

34.85 The Sudbury Neutrino Observatory (SNO) is a collaborative project in particle physics involving scientists from laboratories and universities in Canada, the United States and the United Kingdom. Canada leads the international team, and its project director is a senior physicist at Queen's University. The observatory is located two kilometres below ground in Inco's operating mine — the Creighton Mine, near Sudbury, Ontario.

34.86 Fusion reactions in the sun produce vast amounts of neutrinos that interact only rarely with matter. For many years, neutrinos were assumed to be massless particles. The SNO is designed to detect the few interactions between solar neutrinos and matter and help determine if neutrinos have a mass. The SNO is in a unique position to help scientists understand the nuclear reactions that generate energy in the sun and the stars, as well as the fundamental properties of neutrinos.

34.87 The SNO was built inside a 10-storey cavity filled with water in the Creighton Mine. Suspended in the water is the heart of the detector, an acrylic sphere 12 metres in diameter containing 1,000 tonnes of heavy water and surrounded by thousands of light sensors. Neutrinos interact with heavy water molecules to produce particles and these interactions generate flashes of light that allow detailed and unique studies of solar neutrinos.

The Sudbury Neutrino Observatory is located two kilometres below ground in Inco's operating mine — the Creighton Mine, near Sudbury, Ontario.



The Sudbury Neutrino Observatory is located two kilometres below ground, in Inco's Creighton Mine near Sudbury, Ontario. The detector contains 1,000 tonnes of heavy water in an acrylic vessel. It is designed to detect neutrinos produced by fusion reactions in the sun (see paragraphs 34.85 to 34.89).

34.88 Locating the observatory inside the Creighton Mine provided natural shielding from unwanted cosmic radiation, but posed major engineering challenges. Construction began in 1990 and was to be completed in 1995. However, due to many problems, it was only completed in 1998. The first neutrinos were detected in 1999.

34.89 Other neutrino experiments exist around the world, but as they do not use heavy water, they cannot detect the different types of neutrinos. Canada has large stocks of heavy water used in the CANDU reactors. The SNO was made possible through the loan of 1,000 tonnes of heavy water (worth $300 million) from Atomic Energy of Canada Limited.

The observatory is designed to detect the few interactions between solar neutrinos and matter and help determine if neutrinos have a mass.

Information to Cabinet was incomplete

34.90 **Funding history.** Between 1986 and 1989, the Natural Sciences and Engineering Research Council of Canada (NSERC) and National Research Council Canada (NRC) provided more than $2 million to conduct preliminary feasibility studies for construction of the SNO.

34.91 In 1989, NSERC committed $16.65 million to construct the observatory. In 1990, Cabinet provided for additional funding through the NRC and Industry, Science and Technology Canada (now Industry Canada). The briefing material submitted to Cabinet stated that the total federal support for the facility would be $34.85 million, including $18.20 million in contributions from the NRC and Industry, Science and Technology Canada (See Exhibit 34.5). Total construction costs were estimated at about $48 million.

34.92 By 1993, it was clear that construction would not be completed within the original budget. Consulting and Audit Canada was asked to review the project, with a view to providing cost estimates for completion of the construction phase. It estimated that, at a minimum, $16.4 million of additional funding was needed. According to the briefing material presented to Cabinet, NSERC provided $3 million and Cabinet allocated $12.4 million for a total of $15.4 million in additional funding. In 1993-94, NSERC also provided another $1.3 million in grants.

34.93 In 1996, the project again faced a variety of difficulties that resulted in cost overruns and construction delays. In February, Cabinet approved an additional $750,000 through Industry Canada, which

Exhibit 34.5

Federal Funding for Construction of the Sudbury Neutrino Observatory

($ millions)

Year	Industry Science and Technology Canada	National Research Council Canada	Natural Sciences and Engineering Research Council of Canada	Total Federal Investment	Estimated Construction Completion Date
1989-1990	9.10	9.10	16.65	34.85	Mid-1993
1993	12.40		4.30	16.70	Mid-1995
1996	.75		0.90	1.65	December 1996
After 1996			1.10	1.10	Completed in 1998
Total	**22.25**	**9.10**	**22.95**	**54.30**	

Source: Compiled by the Office of the Auditor General and information provided by the Natural Sciences and Engineering Research Council of Canada

brought federal funding approved through Cabinet to a total of $31.35 million. NSERC awarded an additional $900,000 for construction, which brought its grant funding to $21.85 million.

In the end, the total federal investment for the construction of the observatory was $54.30 million and not $34.85 million.

34.94 In the end, the total federal investment for the construction of the observatory, including NSERC grant funding, was $54.30 million and not $34.85 million. The additional $19.44 million represents a 56 percent increase in the federal government's funding. Other contributions came from the Province of Ontario ($9.9 million), the United States ($14.1 million) and the United Kingdom ($0.7 million).

34.95 Construction cost estimates were incomplete. While decisions on federal support for Big Science are ultimately the responsibility of ministers, federal agencies play an essential role ensuring that informed choices are made. For the decision-making system to work properly, proposals and cost estimates need to be reviewed rigorously and challenged by senior managers. This would ensure that Cabinet has a clear understanding of the likely risks and results associated with Big Science projects.

We noted two important cost overrun factors — inflation and contingency allowances — that should have been better assessed and presented in the Cabinet briefing material.

34.96 We found that decision-making information provided to Cabinet for the SNO focussed mainly on the project as a unique scientific opportunity and did not provide complete cost and risk information.

34.97 In 1993, Consulting and Audit Canada noted that cost overruns were a result of:

- important changes in the project's scope and design (the changes used up a significant portion of the contingency allowance);
- inflation over the construction period;
- extra time required for excavation;
- temporary shutdowns of the Creighton Mine by Inco;
- exchange rate fluctuations;
- creation of the Goods and Services Tax; and
- unanticipated changes in the scale of participation of Atomic Energy of Canada Limited, National Research Council Canada and Inco. (The responsibility for the project was transferred to a private firm. Consulting and Audit Canada estimated that the transfer costs were $3.7 million or 19.23 percent of the cost overruns.)

34.98 We noted two important cost overrun factors — inflation and contingency allowances — that should have been better assessed and presented in the Cabinet briefing material.

34.99 Inflation. The original construction proposal provided to departments by the applicants included two cost estimates — one with inflation costs and one without. The cost estimate used in the briefing material submitted to Cabinet in 1989 excluded inflation costs. In 1993, Consulting and Audit Canada reported that inflation accounted for $4.5 million (21.63 percent) of the cost increase to that point. We found no rationale for the use of the lower cost estimate in 1989 in the Cabinet briefing material.

34.100 Contingency allowance. Big Science projects are by their very nature complex and high risk. They push the boundaries of knowledge and often rely on facilities and apparatus that have never been built before. It is crucial that, at the time of approval, all expected costs and potential risks be discussed and sufficient contingencies considered.

34.101 A contingency allowance was included in the briefing material submitted to Cabinet in 1989. However, it did not reflect some of the potential risks associated with elements of the observatory that had never been built

before (for example, the engineering challenges of the acrylic sphere). The briefing material submitted to Cabinet did not explain that construction costs could be higher than projected.

34.102 In 1993, Consulting and Audit Canada recommended that an additional $16.4 million be allocated to complete construction but noted:

> Total Canadian cost of $54.5 million, including a contingency allowance of $5.1 million, may be considered a reasonable forecast....There are still elements of risk which cannot be accurately quantified, and in a project of this complexity, *the contingency allowance may be at the bottom of the scale*.
>
> No provision has been made for "force majeure" events that could materially affect project completion and costs.

34.103 When Cabinet was asked to approve additional funding in 1993, it was not told about this limitation on Consulting and Audit Canada's recommendations. In fact, the briefing material submitted to Cabinet stated that the additional $16.4 million in funding was the maximum amount required to complete construction.

34.104 Cabinet only approved $15.4 million to complete construction. The amount was inadequate and, in 1996, a further $1.65 million was required to complete construction.

34.105 In our view, Cabinet was not provided with the necessary information to make informed decisions on funding for the observatory. As a result, when the government approved funding, it did not know how much the observatory could cost Canadian taxpayers. The problem was not in the information provided to the departments, but rather what the departments provided to Cabinet.

34.106 Operating and maintenance costs estimates were clearly presented. Once construction was completed, the SNO required funding to cover operating costs for the detector and maintenance costs for insurance fees, energy bills, etc. Most of the costs were covered by NSERC grants, which do not need government approval. We found that the operating and maintenance costs had been clearly presented to Cabinet when the project was first approved in 1989.

Total amount of federal support was not clearly presented to Cabinet

34.107 We expected that Cabinet would be fully informed about all funding sources for construction, especially federal sources, as well as the total cost to the government.

34.108 Construction costs. More than $54.30 million in federal funds was provided for the construction of the observatory. Of this amount, $31.35 million required Cabinet approval, and the remaining $22.95 million was provided by the Natural Sciences and Engineering Research Council of Canada (NSERC). The briefing material provided to Cabinet refers to only $20.55 million invested by NSERC in the SNO, although the actual amount was $21.85 million. In addition, another $1.1 million was awarded by NSERC after the final Cabinet decision in 1996.

In our view, Cabinet was not provided with the necessary information to make informed decisions on funding for the observatory.

34.109 Non-compliance with government's Policy on Transfer Payments. A 1987 Treasury Board circular on grants, contributions and other transfer payments stated that assistance to a recipient's capital project cannot be in the form of a grant. A capital project is any project intended to acquire (through construction, purchase or lease) or improve a capital asset. We found that, contrary to Treasury Board rules, the SNO received $22.95 million in grants from NSERC for construction.

34.110 The 1987 circular also stated that payment of funds should not be made earlier than required, as early pay-outs result in interest costs on the public debt.

We found that some grant payments were made earlier than required, resulting in interest costs of more than $2 million. Between 1989 and 1991, NSERC paid over $5 million toward the project, yet the money was not used until 1992-93.

Cabinet was informed about the project's potential scientific and economic benefits

34.111 The advancement of scientific knowledge is usually the prime benefit for Big Science projects. Accordingly, one would expect the economic impact to be modest and limited to regional economic benefits flowing from the construction and/or maintenance of Big Science facilities.

34.112 In our view, Cabinet was given a realistic picture of the potential scientific and economic benefits of the project. The scientific merits of the project were clearly emphasized, and the regional economic impacts were appropriately described as relatively small.

34.113 Also, the scientific complexity of Big Science projects means that decision makers should be informed about the views of national and international scientific bodies and peer-review committees on the project. In the case of the SNO, such information was provided to decision makers.

Improved reporting of project's total cost and benefits is needed for Parliament and the public

34.114 The total cost to the federal government of the SNO project has not been reported to Parliament. The Report on Plans and Priorities and the Performance Report contain each federal entity's expenditures but do not include an overview of the total federal involvement in Big Science projects.

Conclusion

34.115 The federal government will likely continue to fund Big Science projects in Canada and abroad. To improve the assessment of these projects, we believe that the government needs to consider the following issues.

A framework for handling Big Science proposals is needed

34.116 In the 1996 S&T Strategy, the government acknowledged the need to put in place a government-wide co-ordination mechanism to create synergies and efficiencies in Canada's overall science and technology effort. In 1998, it created the Council of Science and Technology Advisors to inform government on science and technology issues common to federal science-based departments and agencies. The government specifically identified Big Science as a common issue that could benefit from external advice.

34.117 The demand for funding of Big Science facilities in Canada and abroad continues to grow. Given the limited resources available for science and technology projects in Canada, such large investments must only be made with full knowledge of the overall impact on the science and technology community. The government's new science and technology management structure provides a mechanism to ensure that Big Science proposals are no longer treated on an ad hoc basis, but rather are assessed thoroughly and in the context of Canada's science and technology priorities. In our view, the Council of Science and Technology Advisors should be asked to continue the work, started by the National Advisory Board on Science and Technology, of developing a framework to handle Big Science proposals. Such a framework would ensure that decision makers have the necessary information on costs, risks, follow-on funding commitments, and impact on the community. Also, it would provide links to national science and technology

priorities as well as to activities of the Canada Foundation for Innovation and other funding sources.

Complete and accurate information is required for decision making

34.118 Big Science proposals submitted for Cabinet approval must be as complete and accurate as possible. In this regard, decision makers should be well informed about:

- The unique scientific nature of the project, which can push the boundaries of knowledge.
- The many uncertainties and risks associated with the project. These should be assessed thoroughly to see whether they are internal (technological/scientific) or external (inflation, withdrawal of partners, "force majeure" events).
- All project-cycle costs from construction to implementation, ongoing operation and maintenance, research and development, and decommissioning.
- The financial involvement of all federal organizations and whether the funding needs government approval.
- The expected scientific benefits based on adequate analysis, including valid peer-review assessments.
- The expected economic benefits based on adequate analysis, recognizing that the potential for commercial development may be modest.
- Procedures for evaluating a project's results and benefits using measures that reflect an appropriate mix of outcomes and perspectives (for example, scientific accomplishments and economic benefits).

34.119 Furthermore, reviews should be conducted to reassess costs after key steps are completed, as follow-up to initial cost estimates. Cabinet should be informed of this process when considering initial funding.

Improved accountability for federal investments in Big Science projects

34.120 The S&T Strategy recognizes that good co-ordination of all parties is necessary to protect federal interests and attain federal objectives in collaborative projects. The S&T Strategy also recognizes the need for greater accountability in the federal science and technology effort. Effective reporting is an important component of accountability. Without good reporting, it is very difficult, if not impossible, for Parliament and Canadians to obtain very basic information.

34.121 For Big Science projects, the government should ensure that:

- A single federal authority is established for accountability purposes.
- The identified authority reports annually to Parliament on the project's status, on behalf of all the federal participants.
- Procedures are in place to manage federally funded projects that have non-federal partners, whether from the private sector, universities, foreign governments or other entities.

Big Science proposals submitted for Cabinet approval must be as complete and accurate as possible.

Audit Team

Assistant Auditor General: Richard Flageole
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Julie Pelletier

For information, please contact Peter Simeoni.

Appendices

APPENDIX A
AUDITOR GENERAL ACT

R.S.C., c. A-17
An Act respecting the Office of the Auditor General of Canada and sustainable development monitoring and reporting
1995, c. 43, s.1.

SHORT TITLE

Short title

1. This Act may be cited as the *Auditor General Act*. 1976-77, c. 34, s.1.

INTERPRETATION

Definitions

2. In this Act,

"appropriate Minister" "appropriate Minister" has the meaning assigned by section 2 of the *Financial Administration Act*;

"Auditor General" "Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"category I department" "category I department" means

(a) any department named in Schedule I to the *Financial Administration Act*,

(b) any department in respect of which a direction has been made under subsection 24(3), and

(c) any department, as defined in the *Financial Administration Act*, set out in the schedule;

"Commissioner" "Commissioner" means the Commissioner of the Environment and Sustainable Development appointed under subsection 15.1(1);

"Crown corporation" "Crown corporation" has the meaning assigned to that expression by section 83 of the *Financial Administration Act*;

"department" "department" has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

"registrar" "registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*;

"sustainable development" "sustainable development" means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;

"sustainable development strategy" "sustainable development strategy", with respect to a category I department, means the department's objectives, and plans of action, to further sustainable development. 1976-77, c. 34, s. 2; 1984, c. 31, s. 14; 1995, c. 43, s. 2.

AUDITOR GENERAL OF CANADA

Appointment and tenure of office

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s. 3.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. 1976-77, c. 34, s. 4; 1980-81-82-83, c. 50, s. 23, c. 55, s. 1.

DUTIES

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act. 1976-77, c. 34, s. 5.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. 1976-77, c. 34, s. 6; 1980-81-82-83, c. 170, s. 25.

Annual and additional reports to the House of Commons

7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons

(a) on the work of his office; and,

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency;

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or

(f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Submission of annual report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Notice of additional reports to Speaker and tabling in the House of Commons

(4) Where the Auditor General proposes to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.

Submission of additional reports to Speaker and tabling in the House of Commons

(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it. 1976-77, c. 34, s. 7; 1994, c. 32, s. 1 and 2; 1995, c. 43, s. 3.

Special report to the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976-77, c. 34, s. 8; 1994, c. 32, s. 3.

Idem

9. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*,

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976-77, c. 34, s. 9.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board. 1976-77, c. 34, s.10.

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1976-77, c. 34, s. 11.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board. 1976-77, c. 34, s. 12.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*. 1976-77, c. 34, s.13.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada. 1976-77, c. 34, s. 14.

STAFF OF THE AUDITOR GENERAL

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under section 21 of that Act and inquiries under section 34 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976-77, c. 34, s. 15; 1992, c. 54, s. 79.

Appointment of Commissioner

15.1 (1) The Auditor General shall, in accordance with the *Public Service Employment Act*, appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.

Commissioner's duties

(2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development. 1995, c. 43, s. 4.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 7(1)(e) and sections 11 to 13 of that Act. 1976-77, c. 34, s.16.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office. 1976-77, c. 34, s. 18.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration Act* and his reports to the House of Commons under this Act, and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General. 1976-77, c. 34, s. 19.

ESTIMATES

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. 1976-77, c. 34, s. 20.

Appropriation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976-77, c. 34, s. 21.

AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of the office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. 1976-77, c. 34, s. 22.

SUSTAINABLE DEVELOPMENT

Purpose

21.1 The purpose of the Commissioner is to provide sustainable development monitoring and reporting on the progress of category I departments towards sustainable development, which is a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,

(a) the integration of the environment and the economy;

(b) protecting the health of Canadians;

(c) protecting ecosystems;

(d) meeting international obligations;

(e) promoting equity;

(f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;

(g) preventing pollution; and

(h) respect for nature and the needs of future generations. 1995, c. 43, s. 5.

Petitions received

22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.

Acknowledgement to be sent

(2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.

Minister to respond

(3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within

(a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or

(b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.

Multiple petitioners

(4) Where the petition is from more that one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them. 1995, c. 43, s. 5.

Duty to monitor

23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor

(a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before the House of Commons under section 24; and

(b) the replies by Ministers required by subsection 22(3).

Commissioner's report

(2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including

(a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before that House under section 24;

(b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and

(c) the exercising of the authority of the Governor in Council under any of subsections 24(3) to (5).

Submission and tabling of report

(3) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next fifteen days on which that House is sitting after the Speaker receives it. 1995, c. 43, s. 5.

Strategies to be tabled

24. (1) The appropriate Minister for each category I department shall cause the department to prepare a sustainable development strategy for the department and shall cause the strategy to be laid before the House of Commons

(a) within two years after this subsection comes into force; or

(b) in the case of a department that becomes a category I department on a day after this subsection comes into force, before the earlier of the second anniversary of that day and a day fixed by the Governor in Council pursuant to subsection (4).

Updated strategies to be tabled

(2) The appropriate Minister for the category I department shall cause the department's sustainable development strategy to be updated at least every three years and shall cause each updated strategy to be laid before the House of Commons on any of the next fifteen days on which that House is sitting after the strategy is updated.

Governor in Council direction

(3) The Governor in Council may, on that recommendation of the appropriate Minister for a department not named in Schedule I to the *Financial Administration Act*, direct that the requirements of subsections (1) and (2) apply in respect of the department.

Date fixed by Governor in Council

(4) On the recommendation of the appropriate Minister for a department that becomes a category I department after this subsection comes into force, the Governor in Council may, for the purpose of subsection (1), fix the day before which the sustainable development strategy of the department shall be laid before the House of Commons.

Regulations

(5) The Governor in Council may, on the recommendation of the Minister of the Environment, make regulations prescribing the form in which sustainable development strategies are to be prepared and the information required to be contained in them. 1995, c. 43, s. 5.

APPENDIX B

FINANCIAL ADMINISTRATION ACT

R.S., c. F-11

Extracts from Part X

CROWN CORPORATIONS

Financial Management

Books and systems

131. (1) Each parent Crown corporation shall cause

(a) books of account and records in relation thereto to be kept, and

(b) financial and management control and information systems and management practices to be maintained,

in respect of itself and each of its wholly-owned subsidiaries, if any.

Idem

(2) The books, records, systems and practices referred to in subsection (1) shall be kept and maintained in such manner as will provide reasonable assurance that

(a) the assets of the corporation and each subsidiary are safeguarded and controlled;

(b) the transactions of the corporation and each subsidiary are in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(c) the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently and the operations of the corporation and each subsidiary are carried out effectively.

Internal audit

(3) Each parent Crown corporation shall cause internal audits to be conducted, in respect of itself and each of its wholly-owned subsidiaries, if any, to assess compliance with subsections (1) and (2), unless the Governor in Council is of the opinion that the benefits to be derived from those audits do not justify their cost.

Financial statements

(4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6) if any.

Form of financial statements

(5) The financial statements of a parent Crown corporation and of a wholly-owned subsidiary shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary.

Regulations

(6) The Treasury Board may, for the purposes of subsection (4), make regulations respecting financial statements either generally or in respect of any specified parent Crown corporation or any parent Crown corporation of a specified class, but such regulations shall, in

respect of the preparation of financial statements, only supplement or augment generally accepted accounting principles. 1991, c. 24, s. 41.

Auditor's Reports

Annual auditor's report

132. (1) Each parent Crown corporation shall cause an annual auditor's report to be prepared, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with the regulations, on

(a) the financial statements referred to in section 131 and any revised financial statement referred to in subsection 133(3); and

(b) any quantitative information required to be audited pursuant to subsection (5).

Contents

(2) A report under subsection (1) shall be addressed to the appropriate Minister and shall

(a) include separate statements, whether in the auditor's opinion,

(i) the financial statements are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year,

(ii) the quantitative information is accurate in all material respects and, if applicable, was prepared on a basis consistent with that of the preceding year, and

(iii) the transactions of the corporation and of each subsidiary that have come to his notice in the course of the auditor's examination for the report were in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(b) call attention to any other matter falling within the scope of the auditor's examination for the report that, in his opinion, should be brought to the attention of Parliament.

Regulations

(3) The Treasury Board may make regulations prescribing the form and manner in which the report referred to in subsection (1) is to be prepared.

Separate reports

(4) Notwithstanding any other provision of this Part, the auditor of a parent Crown corporation may prepare separate annual auditor's reports on the statements referred to in paragraph (1)(a) and on the information referred to in paragraph (1)(b) if, in the auditor's opinion, separate reports would be more appropriate.

Audit of quantitative information

(5) The Treasury Board may require that any quantitative information required to be included in a parent Crown corporation's annual report pursuant to subsection 150(3) be audited.

Other reports

(6) The auditor of a parent Crown corporation shall prepare such other reports respecting the corporation or any wholly-owned subsidiary of the corporation as the Governor in Council may require.

Examination

(7) An auditor shall make such examination as he considers necessary to enable him to prepare a report under subsection (1) or (6).

Reliance on internal audit

(8) An auditor shall, to the extent he considers practicable, rely on any internal audit of the corporation being audited that is conducted pursuant to subsection 131(3). 1991, c. 24, s. 42.

Errors and omissions

133. (1) A director or officer of a Crown corporation shall forthwith notify the auditor and the audit committee of the corporation, if any, of any error or omission of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on or in a report prepared by the auditor or a former auditor pursuant to section 132.

Idem

(2) Where an auditor or former auditor of a Crown corporation is notified or becomes aware of any error or omission in a financial statement that the auditor or former auditor has reported on or in a report prepared by the auditor or former auditor pursuant to section 132, he shall forthwith notify each director of the corporation of the error or omission if he is of the opinion that the error or omission is material.

Correction

(3) Where an auditor or former auditor of a Crown corporation notifies the directors of an error or omission in a financial statement or report pursuant to subsection (2), the corporation shall prepare a revised financial statement or the auditor or former auditor shall issue a correction to the report, as the case may be, and a copy thereof shall be given to the appropriate Minister. 1984, c. 31, s. 11.

Auditors

Appointment of auditor

134. (1) The auditor of a parent Crown corporation shall be appointed annually by the Governor in Council, after the appropriate Minister has consulted the board of directors of the corporation, and may be removed at any time by the Governor in Council, after the appropriate Minister has consulted the board.

Auditor General

(2) On and after January 1, 1989, the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III, unless the Auditor General waives the requirement that he be so appointed.

Idem

(3) Subsections (1) and (2) do not apply in respect of any parent Crown corporation the auditor of which is specified by any other Act of Parliament to be the Auditor General of Canada, but the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a parent Crown corporation pursuant to subsection (1) and section 135 does not apply to him.

Exception

(4) Notwithstanding subsection (1), where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the auditor of the subsidiary, and subsections (6) and sections 135 to 137 apply in respect of that auditor as though the references therein to a parent Crown corporation were references to the subsidiary.

Criteria for appointment

(5) The Governor in Council may make regulations prescribing the criteria to be applied in selecting an auditor for appointment pursuant to subsection (1) or (4).

Re-appointment

(6) An auditor of a parent Crown corporation is eligible for re-appointment on the expiration of his appointment.

Continuation in office

(7) Notwithstanding subsection (1), if an auditor of a parent Crown corporation is not appointed to take office on the expiration of the appointment of an incumbent auditor, the incumbent auditor continues in office until his successor is appointed. 1984, c.31, s.11.

Persons not eligible

135. (1) A person is disqualified from being appointed or re-appointed or continuing as an auditor of a parent Crown corporation pursuant to section 134 if that person is not independent of the corporation, any of its affiliates, or the directors or officers of the corporation or any of its affiliates.

Independence

(2) For the purpose of this section,

(a) independence is a question of fact; and

(b) a person is deemed not to be independent if that person or any of his business partners

(i) is a business partner, director, officer or employee of the parent Crown corporation or any of its affiliates, or a business partner of any director, officer or employee of the corporation or any of its affiliates,

(ii) beneficially owns or controls, directly or indirectly through a trustee, legal representative, agent or other intermediary, a material interest in the shares or debt of the parent Crown corporation or any of its affiliates, or

(iii) has been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the parent Crown corporation or any of its affiliates within two years of his proposed appointment as auditor of the corporation.

Resignation

(3) An auditor of a parent Crown corporation who becomes disqualified under this section shall resign forthwith after becoming aware of his disqualification. 1984, c.31, s.11.

Qualifications preserved

136. Nothing in sections 134 and 135 shall be construed as empowering the appointment, re-appointment or continuation in office as an auditor of a parent Crown corporation of any person who does not meet any qualifications for such appointment, re-appointment or continuation established by any other Act of Parliament. 1984, c. 31, s. 11.

Resignation

137. A resignation of an auditor of a parent Crown corporation becomes effective at the time the corporation receives a written resignation from the auditor or at the time specified in the resignation, whichever is later. 1984, c. 31, s. 11.

Special Examination

Special examination

138. (1) Each parent Crown corporation shall cause a special examination to be carried out in respect of itself and its wholly-owned subsidiaries, if any, to determine if the systems and practices referred to in paragraph 131(1)(b) were, in the period under examination, maintained in a manner that provided reasonable assurance that they met the requirements of paragraphs 131(2)(a) and (c).

Time for examination

(2) A special examination shall be carried out at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require.

Plan

(3) Before an examiner commences a special examination, he shall survey the systems and practices of the corporation to be examined and submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the audit committee of the corporation, or if there is no audit committee, to the board of directors of the corporation.

Resolution of disagreements

(4) Any disagreement between the examiner and the audit committee or board of directors of a corporation with respect to a plan referred to in subsection (3) may be resolved

(a) in the case of a parent Crown corporation, by the appropriate Minister; and

(b) in the case of a wholly-owned subsidiary, by the parent Crown corporation that wholly owns the subsidiary.

Reliance on internal audit

(5) An examiner shall, to the extent he considers practicable, rely on any internal audit of the corporation being examined conducted pursuant to subsection 131(3). 1984, c.31, s.11.

Report

139. (1) An examiner shall, on completion of the special examination, submit a report on his findings to the board of directors of the corporation examined.

Contents

(2) The report of an examiner under subsection (1) shall include

(a) a statement, whether in the examiner's opinion, with respect to the criteria established pursuant to subsection 138(3), there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and

(b) a statement of the extent to which the examiner relied on internal audits. 1984, c.31, s.11.

Special report of appropriate Minister

140. Where the examiner of a parent Crown corporation, or a wholly owned subsidiary of a parent Crown corporation, named in Part I of Schedule III is of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the board of directors of the corporation, or with the board of the subsidiary and corporation, as the case may be, report that information to the Minister and furnish the board or boards with a copy of the report. 1984, c.31, s.11.

Special report to Parliament

141. Where the examiner of a parent Crown corporation, or a wholly-owned subsidiary of a parent Crown corporation, named in Part I of Schedule III of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the board of directors of the corporation, or with the boards of the subsidiary and corporation, as the case may be, prepare a report thereon for inclusion in the next annual report of the corporation and furnish the board or boards, the appropriate Minister and the Auditor General of Canada with copies of the report. 1984, c.31, s.11.

Examiner

142. (1) Subject to subsections (2) and (3), a special examination referred to in section 138 shall be carried out by the auditor of a parent Crown corporation.

Idem

(2) Where, in the opinion of the Governor in Council, a person other than the auditor of a parent Crown corporation should carry out a special examination, the Governor in Council may, after the appropriate Minister has consulted the board of directors of the corporation, appoint an auditor who is qualified for the purpose to carry out the examination in lieu of the

auditor of the corporation and may, after the appropriate Minister has consulted the board, remove that qualified auditor at any time.

Exception

(3) Where a special examination is to be carried out in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the qualified auditor who is to carry out the special examination.

Applicable provisions

(4) Subject to subsection (5), sections 135 and 137 apply in respect of an examiner as though the references therein to an auditor were references to an examiner.

Auditor General eligible

(5) The Auditor General of Canada is eligible to be appointed an examiner and section 135 does not apply to the Auditor General of Canada in respect of such an appointment. 1984, c. 31, s. 11.

Consultation with Auditor General

Consultation with Auditor General

143. The auditor or examiner of a Crown corporation may at any time consult the Auditor General of Canada on any matter relating to his audit or special examination and shall consult the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament pursuant to paragraph 132(2)(b) or section 141. 1984, c. 31, s. 11.

Right to Information

Right to Information

144. (1) On the demand of the auditor or examiner of a Crown corporation, the present or former directors, officers, employees or agents of the corporation shall furnish such

(a) information and explanations, and

(b) access to records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries

as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the directors, officers, employees or agents are reasonably able to furnish.

Idem

(2) On the demand of the auditor or examiner of a Crown corporation, the directors of the corporation shall

(a) obtain from the present or former directors, officers, employees or agents of any subsidiary of the corporation such information and explanations as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the present or former directors, officers, employees or agents are reasonably able to furnish; and

(b) furnish the auditor or examiner with the information and explanations so obtained.

Reliance on reports

(3) An auditor or examiner of a Crown corporation may reasonably rely on any report of any other auditor or examiner. 1984, c. 31, s. 11.

Policy

Restriction

145. Nothing in this Part or the regulations shall be construed as authorizing the auditor or examiner of a Crown corporation to express any opinion on the merits of matters of policy, including the merits of

(a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;

(b) the objectives of the corporation; and

(c) any business or policy decision of the corporation or of the Government of Canada. 1984, c. 31, s. 11.

Qualified Privilege

Qualified privilege

146. Any oral or written statement or report made under this Part or the regulations by the auditor or a former auditor, or the examiner or a former examiner, of a parent Crown corporation or a wholly-owned subsidiary has qualified privilege. 1991, c. 24, s. 43.

Costs

Cost of audit and examination

147. (1) The amounts paid to an auditor or examiner of a Crown corporation for preparing any report under section 132, 139, 140 or 141 shall be reported to the President of the Treasury Board.

Idem

(2) Where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred by him in preparing any report under section 132, 139, 140 or 141 shall be disclosed in the next annual report of the Auditor General and be paid out of the moneys appropriated for his office. 1984, c. 31, s. 11.

Audit Committee

Audit committee

148. (1) Each parent Crown corporation that has four or more directors shall establish an audit committee composed of not less than three directors of the corporation, the majority of whom are not officers or employees of the corporation or any of its affiliates.

Idem

(2) In the case of a parent Crown corporation that has less than four directors, the board of directors of the corporation constitutes the audit committee of the corporation and shall perform the duties and functions assigned to an audit committee by any provision of this Part and the provision shall be construed accordingly.

Duties

(3) The audit committee of a parent Crown corporation shall

(a) review, and advise the board of directors with respect to, the financial statements that are to be included in the annual report of the corporation;

(b) oversee any internal audit of the corporation that is conducted pursuant to subsection 131(3);

(c) review, and advise the board of directors with respect to, the annual auditor's report of the corporation referred to in subsection 132(1);

(d) in the case of a corporation undergoing a special examination, review, and advise the board of directors with respect to, the plan and reports referred to in sections 138 to 141; and

(e) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

Auditor's or examiner's attendance

(4) The auditor and any examiner of a parent Crown corporation are entitled to receive notice of every meeting of the audit committee and, at the expense of the corporation, to attend and be heard at each meeting; and, if so requested by a member of the audit committee, the auditor or examiner shall attend any or every meeting of the committee held during his term of office.

Calling meeting

(5) The auditor or examiner of a parent Crown corporation or a member of the audit committee may call a meeting of the committee.

Wholly-owned subsidiary

(6) Where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, subsections (1) to (5) apply, with such modifications as the circumstances require, in respect of the subsidiary as though

(a) the references in subsections (1) to (5) to a parent Crown corporation were references to the subsidiary; and

(b) the reference in paragraph (3)(a) to the annual report of the corporation were a reference to the annual report of the parent Crown corporation that wholly owns the subsidiary. 1984, c. 31, s. 11.

Reports

Accounts, etc. to Treasury Board or appropriate Minister

149. (1) A parent Crown corporation shall provide the Treasury Board or the appropriate Minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate Minister may require.

Reports on material developments

(2) The chief executive officer of a parent Crown corporation shall, as soon as reasonably practicable, notify the appropriate Minister, the President of the Treasury Board and any director of the corporation not already aware thereof of any financial or other developments that, in the chief executive officer's opinion, are likely to have a material effect on the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives or on the corporation's requirements for funding.

Reports on wholly-owned subsidiaries

(3) Each parent Crown corporation shall forthwith notify the appropriate Minister and the President of the Treasury Board of the name of any corporation that becomes or ceases to be a wholly-owned subsidiary of the corporation. 1984, c. 31, s. 11.

Annual report

150. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.

Reference to committee

(2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the businesses and activities of the corporation submitting the report.

Form and contents

(3) The annual report of a parent Crown corporation shall include

(a) the financial statements of the corporation referred to in section 131,

(b) the annual auditor's report referred to in subsection 132(1),

(c) a statement on the extent to which the corporation has met its objectives for the financial year,

(d) such quantitative information respecting the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included in the annual report, and

(e) such other information as is required by this or any other Act of Parliament, or by the appropriate Minister, the President of the Treasury Board or the Minister of Finance, to be included in the annual report,

and shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation and its wholly-owned subsidiaries, if any.

Idem

(4) In addition to any other requirements under this Act or any other Act of Parliament, the Treasury Board may, by regulation, prescribe the information to be included in annual reports and the form in which such information is to be prepared. 1991, c. 24, s. 49.

Annual consolidated report

151. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause a copy of an annual consolidated report on the businesses and activities of all parent Crown corporations for their financial years ending on or before the previous July 31 to be laid before each House of Parliament.

Reference to committee

(2) An annual consolidated report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to Crown corporations.

Contents

(3) The annual consolidated report referred to in subsection (1) shall include

(a) a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation;

(b) employment and financial data, including aggregate borrowings of parent Crown corporations; and

(c) such other information as the President of the Treasury Board may determine. 1984, c. 31, s. 11.

Annual report

152. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause to be laid before each House of Parliament a copy of a report indicating the

summaries and annual reports that under this Part were to be laid before that House by July 31 in that year, the time at, before or within which they were to be laid and the time they were laid before that House.

Attest

(2) The accuracy of the information contained in the report referred to in subsection (1) shall be attested by the Auditor General of Canada in the Auditor General's report to the House of Commons. 1991, c. 24, s. 44.

APPENDIX C

REPORT TO THE HOUSE

Monday, 15 November 1999

Pursuant to Standing Order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

The Standing Committee on Public Accounts has considered Chapter 6 of the April 1999 Report of the Auditor General of Canada (*Human Resources Development Canada–Accountability for Shared Social Programs)* and the Committee has agreed to report the following:

Introduction

The federal government's role in Canada's social program has undergone important changes over the last few years. The federal government has recently entered into a joint agreement with nine provinces (except Quebec) and two territories (Yukon and the Northwest Territories) on a framework for new types of arrangements in a social union.

The National Child Benefit (NCB) is a new type of arrangement that combines federal tax expenditures and provincial programs. Its main goals are to reduce the depth of poverty in families with children, increase parental attachment to the workforce.

Initially, the federal government's financial commitment to the National Child Benefit (NCB) was $850 million in 1998. This commitment rose by $850 million between 1998-2000, bringing the total annual financial commitment to $1.7 billion for the fiscal year 2000-2001. As the federal NCB funding increases, the signatory provinces and territories have agreed to reinvest the savings they will realise from the reduced social assistance payments into complementary programs targeted for improving work incentives, benefits and services for low income families with children.

The Employability Assistance for Persons with Disabilities (EAPD) program is a more traditional federal-provincial cost shared program. Its aim is to assist people with disabilities to overcome the barriers they face in the work force by helping them to prepare for, obtain, and maintain employment.

Accountability is a key element in the design of both programs. In official statements, all signatories have made commitments to account for expenditures of funds and of outcomes.

Notwithstanding these commitments, it is unclear how the accountability for overall results of these programs is to be achieved.

It was with these issues in mind that the House of Commons Standing Committee on Public Accounts decided to consider the findings of chapter 6 of the April 1999 Report of the Auditor General of Canada on Human Resources Development Canada: Accountability for Shared Social Programs. The Committee met on the 1 June 1999 with Mr. David Rattray (Assistant Auditor General, Audit Operations Branch) and Mr. Lewis Auerbach (Director, Audit Operations Branch). Representing Human Resources Development Canada were Ms. Claire M. Morris (Deputy Minister), Ms. Susan Scotti (Associate Assistant Deputy Minister, Human Resources Investment Branch) and Ms. Margaret Biggs (Associate Executive Head, Strategic Policy).

Observations and Recommendations

Mr. Rattray stated that the audit focussed primarily on the challenges for accountability that confront the National Child Benefit (NCB) program and the Employability Assistance for Persons with Disabilities (EAPD) program. As he told the Committee, "citizens, legislative bodies and audit offices may justifiably seek assurances that these new arrangements increase, or at least do not diminish, accountability for expenditures on shared social programs and their outcomes".

Thus, the key issue is how to assure Canadians that they are receivingaccurate and adequate information on whether money for these programs has been spent for the purposes intended and whether desired outcomes have been achieved.

The focus of the Auditor General's report was primarily on the accountability reports that will be published annually for each program. Mr. Rattray stated that it is through these reports that readers will be able to assess the programs and how well the federal government and the other participants have fulfilled their joint commitment of achieving the goals they have set.

Because the study of the programs was at an early stage of development, the Office of the Auditor General of Canada did not have formal criteria against which to undertake an examination of the programs. However, the Auditor General did have expectations that could be used in a future audit. These expectations are the following:

- The development of clear and concrete indicators and measures; and
- Information that is understandable, balanced, attributable and reliable.

Regarding the National Child Benefit (NCB), Mr.Rattray observed that "…ail partners have committed to achieving transparency and to publishing annual reports on the achievements of these goals." However, despite these commitments, there remains the possibility that the information may be incomplete, not easily comparable between one province and another, or inaccurate. Mr. Rattray stated that Human Resources Development Canada (HRDC) shares the Auditor General's concerns and is working with the other participants to address this issue.

The financial commitment of signatory provinces, territories, First Nations and Ontario municipalities is especially important to the National Child Benefit (NCB) program. The challenge involves how to assess whether these commitments have been met, because of interjurisdictional issues involved, differences between data systems, and the fact that both First Nations and Ontario municipalities, who were not part of the negotiations, now have reinvestment obligations because they directly administer welfare budgets.

The first report on the National Child Benefit (NCB) program was released in Quebec City on the 14th of May 1999. The report is a joint product of all the signatory governments. The first report begins the participant's commitment to report regularly on the progress of the initiative. Future reports should contain more information on outcomes and actual expenditures. The progress reports emphasise accountability to the public. In the Auditor General's view, the reports should also include accountability to Parliament and to provincial legislatures.

The Employability Assistance for Persons with Disabilities (EAPD) program is a more traditional federal-provincial cost-shared agreement that does not have the same innovative features of the National Child Benefit (NCB) program. In negotiating these agreements, all signatories have committed themselves to transparency and accountability.

Each signatory under the Employability Assistance for Persons with Disabilities (EAPD) program must ensure that the information provided be credible and that it permits meaningful comparisons of different provincial

approaches, and that there is a periodic but timely assessment of the program's overall performance. The Auditor General noted that it was not clear whether there will be an overall report on the Employability Assistance for Persons with Disabilities (EAPD) program that will provide information on accomplishments. The Auditor General recommended that such a report should be prepared to facilitate accountability for federal expenditures.

In her opening statement, Ms. Morris, indicated to the Committee that the Department had a remarkable opportunity to play a major role in setting up new framework between the federal and provincial governments in the area of social policy and programs.

In the past, when large social transfer programs were involved, governments were accountable for spending dollars on approved programs but not on the impacts of this spending upon Canadians. Today, federal-provincial relationships have evolved to a point where governments are moving away from "financial accounting principles" towards a much broader and more inclusive objective – shared accountability for achieving social policy objectives and goals that serve the individual and collective interests of Canada's citizens.

Ms. Morris informed the committee that the National Child Benefit (NCB) program spelled out a different kind of accountability under which all participating governments are committed to jointly reporting to the public on an annual basis. This form of accountability differs from the more traditional federal-provincial programs that involved one government being held accountable to another government – typically a provincial government to the federal government.

Unlike previous arrangements, the National Child Benefit Governance and Accountability Framework also commits governments to focus on program outcomes. In other words, the emphasis is on the results produced and the progress achieved in reducing child poverty. Further, the framework recognises the importance of evaluative and analytical work to ensure the appropriate and reliable measurement of program outcomes.

Ms. Morris mentioned that the first release of the NCB Progress Report was an important first step in meeting the commitment to public accountability. Given that the National Child Benefit (NCB) program started in July 1998, the first report is necessarily preliminary, but it remains essential as it serves as a baseline for future reports on the National Child Benefit.

Ms. Morris noted that, as a complement to the NCB Progress Report, participating Ministers have agreed to undertake a co-ordinated approach to evaluation of the National Child Benefit (NCB) program. Such an approach, according to Ms. Morris, will allow governments to learn from one another's experience to develop more effective programs over time.

Ms. Morris emphasised the remaining challenges to the development, implementation and collective reporting on the National Child Benefit (NCB) program, especially ensuring that all participants collaborate in establishing standards by which information is collected, analysed and reported to the public. Also required is an agreement on the progress indicators that measures the program's progress in achieving its objectives.

Ms. Morris informed the Committee that under the Employability Assistance for Persons with Disabilities (EAPD) program the provinces will provide annual reports to the federal government on program results and services. The Department is currently developing a prototype report that will be further refined through consultations with its provincial partners. The Department intends to make available to the public a national report that consolidates information contained in the provincial reports.

Also, Human Resources Development Canada is currently developing an evaluation approach for Employability Assistance for Persons with Disabilities (EAPD) program. This work is being co-managed through a federal-provincial steering committee on evaluation, and Ms. Morris indicated that a report by an independent evaluator recommending an evaluation process and methodology is expected in September of this year.

The Committee acknowledges the efforts of the Department and the other signatories in the development, implementation and public reporting of the National Child Benefit (NCB) program and the Employability Assistance for Persons with Disabilities (EAPD) program but concerns remain regarding the apparent lack of progress in establishing quantitative goals and implementation time frames for each of the initiatives. When questioned about program targets for the EAPD, Ms. Morris stated that there were no specific quantitative targets for overall program objectives but indicators of progress have been developed. When the Committee further enquired about program performance expectations for the National Child Benefit (NCB) initiative, Ms. Biggs, reported the following: "no, were not setting those goals. Were measuring the impact, the change in each of these indicators over time."

The Committee feels that developing progress indicators , while essential, is not enough. Clearly stated and measurable performance expectations are required to determine the degree to which programs have achieved their aims. Thus the Committee recommends:

That Human Resources Development Canada and its signatories determine specific quantitative expectations of performance for their respective program goals along with implementation timetables for the National Child Benefit (NCB) program and Employability Assistance for Persons with Disabilities (EAPD) program; and

That Human Resources Development Canada and the other signatories regularly report on progress in setting quantitative goals and implementation of deadlines in their respective reports to the public and their parliamentary legislatures.

Mr. Rattray informed the Committee about concerns regarding the quality of the information exchanged between all participants in the National Child Benefit (NCB) and Employability Assistance for Persons with Disabilities (EAPD) programs. According to Mr. Rattray, there is nothing specific in the existing arrangements that would require the participants to provide a preliminary audit to assess the quality of the data before it is shared with all the other participants. In other words, how would participants ensure the data collected is correct, complete and comparable before sharing it with the other participants.

In light of this, the Committee recommends:

That Human Resources Development Canada with the other signatories develop a common data reporting framework and protocol aimed at achieving quality, consistency and comparability of program data; and

That Human Resources Development Canada and the other signatories endeavour, where feasible, to present audited data in the annual progress reports.

Another issue raised in the meeting was accountability to the public and to governments. While the Committee agrees that accountability to the general public is important, the Department and the other signatories should also report directly to their respective parliamentary legislatures on the progress of the National Child Benefit (NCB) program and the Employability Assistance for Disabled Persons (EAPD) program. Thus the Committee recommends:

That Human Resources Development Canada together with the other signatories ensure that the annual progress report of these initiatives are tabled in their respective parliamentary legislatures at the earliest opportunity after the report is released to the public.

Human Resources Development Canada (HRDC) is clearly aware of the importance of program evaluation as a means of further ensuring the efficacy, accountability and transparency of programs. Ms. Morris stated that the

National Child Benefit Governance and Accountability Framework recognises the importance of evaluative and analytical work to ensure the appropriate and reliable measurement of program outcomes. Further, the Department has already started developing an evaluation approach for the Employability Assistance for Person with Disabilities (EAPD) program. The Department expects a report by an independent evaluator in September 1999 that will recommend the methodology and process for the evaluation. During the meeting, the Committee secured a commitment from the deputy minister to prepare an overall report on Employability Assistance for Persons with Disabilities (EAPD) program. As a result, the Committee recommends:

> **That Human Resources Development Canada and all the other signatories commit resources to implement the necessary program evaluations for the National Child Benefit (NCB) program and the Employability Assistance for Persons with Disabilities (EAPD) program in order to permit comparisons and provide information on best practices.**

Conclusion

The Committee acknowledges the efforts of Human Resources Development Canada (HRDC) and all the other signatories in setting up these new shared accountability arrangements in delivering social programs to Canadians. Given the innovative nature of these shared accountability arrangements, many outstanding issues have been addressed, while many more still remain unresolved. The Committee expects a satisfactory resolution of the remaining outstanding issues as Human Resources Development Canada (HRDC) and the other signatories table their progress reports to the public and to Parliament and provincial legislatures.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meeting No. 2)* is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Monday, 15 November 1999

Pursuant to Standing Order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

The Standing Committee on Public Accounts has considered Chapter 10 of the April 1999 *Report of the Auditor General of Canada* (*Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up*) and the Committee has agreed to report the following:

Introduction

> Any new fiscal relationship must ensure that all Aboriginal governments and institutions are accountable to their members through frameworks built on the recognized principles of transparency, disclosure and redress common to governments in Canada. This includes the progressive implementation of government budgeting, internal controls, reporting and auditing standards.(1)

In his Report of April 1999, the Auditor General presented the results of a follow-up audit conducted subsequent to a 1996 audit of funding arrangements between the federal government and Canada's First Nations. Federal government management of these arrangements is the responsibility of Indian and Northern Affairs Canada (the Department). The results of the original audit were contained in chapter 33 of the Auditor General's November 1996 Report and were reviewed by the Standing Committee on Public Accounts in December 1996.

Parliament appropriates approximately $4 billion each year to the Department for funding arrangements that support a variety of programs (for social assistance, education, capital facilities, housing, and economic development) in First Nations communities. Most of these arrangements are in the form of contribution agreements under which First Nations must satisfy certain conditions. The Department is gradually devolving responsibility for management and delivery of programs funded under these funding arrangements to the First Nations themselves. Thus the capacity of First Nations to manage these programs, the pace of devolution, and accountability are issues that must be taken into careful consideration.

Funding arrangements are a key element in the complex and sensitive relationship that exists between the Government of Canada and First Nations. As the Auditor General testified before this Committee on the 10th of December 1996, funding arrangements are:

> the mechanisms by which the Department [Indian and Northern Affairs Canada] formalizes its financial and accountability relationship with First Nations. Their design and implementation impacts strongly on the success of programs and ultimately on the standard of living of the recipients.

The Committee shares this view and has shown a particular interest in those audit reports that have examined the Department's management of financial and accountability relationships with Canada's First Nations.

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(1) Excerpt from *Gathering Strength: Canada's Aboriginal Action Plan*, Minister of Public Works and Government Services Canada, published under the authority of the Minister of Indian and Northern Affairs Canada, Ottawa 1997.

Based on this interest and the significant sums of money involved, as well as the importance of funding arrangements to First Nations communities, the Committee decided to examine the results of the follow-up audit. Accordingly, on 8 June, the Committee met with the Auditor General of Canada, Mr. Denis Desautels, FCA, and Mr. Grant Wilson (Principal, Audit Operations Branch) and Mr. Ted Bonder (Director, Audit Operations Branch), members of his staff. Mr. Dennis Wallace, Associate Deputy Minister and Mr. Brent DiBartolo, Assistant Deputy Minister, Corporate Services, represented the Department.

Observations and Recommendations

The Committee wishes to recognize, at the outset, that the Department works in a challenging environment in which progress can only be achieved on the basis of consultation, co-operation, and mutual trust. This means that most changes will be gradual and that the expectations of all parties must be realistic and tempered with a degree of patience. It is important, therefore, to acknowledge that the Department and its First Nations partners have made headway since the results of the last audit were reported.

The Department's deadline for full implementation of a new funding arrangement (Financial Transfer Agreement, or FTA) has been adjusted in order to ensure that First Nations have both the willingness and capacity to assume the additional responsibilities involved. The Department and First Nations have also taken steps intended to clarify and strengthen accountability and to build First Nations' capacity in the area of accounting practices. The Assembly of First Nations and the Certified General Accountants Association have signed a memorandum of understanding that is intended to improve First Nations' capacity in the field of accounting. This initiative is being financed by the Department as part of *Gathering Strength*, and has also won the endorsement of the Auditor General of Canada. Finally, the Department testified that, at the time of the hearing, 80% of First Nations had completed management and accountability self- assessments, up from 63% at the time of the follow-up audit's completion. Only the Department's encouraging forecast that the completion rate will rise to 100% this fall surpasses this remarkable improvement.

These are noteworthy achievements that demonstrate that concerted effort and co-operation by the Department and its First Nation partners can result in improved funding arrangements and better accountability on all sides. Nevertheless, the follow-up audit clearly shows that several important gaps remain to be closed before Parliament, First Nations, and the Department can rest assured that funding arrangements meet all reasonable expectations.

During the meeting held in December 1996, Mr. Scott Serson, then the Department's Deputy Minister, described the Department's overall accountability framework in the following way:

> First Nations are expected to conduct their affairs in accordance with principles common to all governments in Canada: transparency, disclosure and redress. They are intended to ensure the accountability of First Nations' leaders to their communities. In practice, every first nation, every Inuit community and every tribal council funded by DIAND are currently required to assess their management and accountability system so that communities have complete information on how their governments operate.

While it matters greatly that the mechanisms of accountability be in place, these mechanisms are deprived of their value if the obligations they prescribe are not fully met by all concerned. In this instance, failure to do so would place in jeopardy the principles of transparency, disclosure, and redress that are central to accountability. This in turn would deny residents and the leadership of First Nations' communities, the Department, Parliament, and Canadian taxpayers of the complete information they need to assess the efficacy of funding arrangements. In the context of what has been said about the importance of these arrangements, this should not be allowed to happen, and if it does, corrective measures must be taken with all appropriate urgency.

It is thus of some concern that the follow-up audit revealed problems in the Department's actions with regard to the design and implementation of funding agreements, treatment of self-assessments, and redress arrangements.

Funding Arrangements

In 1996, there were six types of funding arrangements in place, each with its own set of conditions. In response to the Auditor General's 1996 Report, and recommendations contained in the 1996 Report of the Royal Commission on Aboriginal Peoples, the Department set about revising fiscal relations with First Nations. A new funding arrangement, the Financial Transfer Arrangement (FTA), already underway, was to replace most other funding arrangements by March 1998.

The follow-up audit discovered that progress in adopting the FTA was "considerably behind the Department's target," with less than 20% of First Nations and tribal councils using the new arrangement. This prompted the Auditor General to observe in his Report that "[a]t the rate of progress since 1996, it will take at least 10 years to completely replace existing funding arrangements."

In reply to this observation, the Department indicated that it had slowed down the rate of implementation in order to better address the willingness and capacity of First Nations to accept the FTA. This is in keeping with Mr. Serson's 1996 testimony before the Committee that acknowledged that meeting the March 1998 target date was "unlikely," that the date had been chosen "to challenge ourselves to do the work," and that it was going to be "much tougher than we originally thought" to meet the target. These are reasonable explanations, which should have been taken into account when a target date was first identified.

The establishment of a feasible target date would have provided the Department and its First Nations partners with a realistic goal around which to organize their efforts. The absence of a realistic target date may have been further exacerbated by the Department's lack of a plan and strategy to facilitate progress in adopting FTAs. In his testimony, Mr. DiBartolo acknowledged that there was "no plan to move FTA's out throughout the country" because the willingness and capacity of First Nations to accept them varied. The Department indicates that it will have to wait until that willingness and capacity exists. In the meantime, it is working to bring about these conditions.

Against this background, the Department has developed another new funding arrangement (Canada/First Nations Funding Arrangement, or CFNFA) which is designed to achieve better co-ordination between all departments involved in funding First Nations. This is a laudable goal, one which responds to the Auditor General's recommendation found in the 1996 audit report. However, the Auditor General notes in his 1999 Report that the FTA, which the Department intends to replace with the CFNFA, is already being used for multi-departmental planning. He also reports that officials at one of the Department's regional offices have expressed concerns that First Nations were not given adequate opportunity for input into the design of the CFNFA. For its part, the Department indicated that so far it has worked closely with Health Canada on the design of the CFNFA but only held discussions with two other departments (Solicitor General and Department of Fisheries and Oceans) that provide funding. This gives rise to concerns that the Department may be embarking on the implementation of a new funding arrangement before consultations have been completed and before the most recent arrangement (the FTA) has been fully understood and accepted. This may in turn lead to some confusion among First Nations communities and may complicate efforts to win their support for any new arrangement.

In light of the above observations, the Committee recommends:

That the Indian and Northern Affairs Canada:

A. Determine which funding arrangement will replace the several funding arrangements currently in place and communicate its decision to its First Nations partners, to Parliament in its *Report on Plans and Priorities for 2000 – 2001*, and to all federal departments involved in the provision of funding to First Nations;

B. Establish a plan and a strategy to facilitate progress in adopting the new funding arrangement that includes:

i. the considerations and approach to be used in achieving the objective(s),

ii. the identification of departmental and First Nations risks,

iii. the development of a realistic conversion table that all parties could agree to, and

iv. a realistic completion date that includes a definition of what is meant by "complete";

C. Consult and work closely with all First Nations to ensure that:

i. the new funding arrangement, including its accountability provisions, is fully understood, and

ii. to ensure that the capacity and willingness to adopt the new arrangement is fully present;

D. Ensure that the new arrangement is sufficiently flexible to accommodate varying degrees of capacity and condition among First Nations; and

E. Work closely with all federal departments currently involved in funding arrangements with First Nations in the design and implementation of a single generic arrangement for multi-departmental funding.

Accountability: Self-assessment and Redress

As part of its efforts to build capacity within First Nations communities, the Department has created a 40-page workbook for use by First Nations to use to assess their management and accountability structures. These self-assessments are to be submitted to the Department and are meant to serve as an accountability tool in themselves as well as a means of highlighting deficiencies. When deficiencies are found, a development plan is required to address them. The results of this activity should also provide guidance in shaping and improving subsequent funding arrangements.

The information that is reported through the self-assessment process should be reviewed and assessed on a regular basis. Departmental follow-up should occur when reported information is inadequate or incomplete. When development plans are drawn up to address problems, these plans should also be reviewed and assessed. This process of self-assessment and departmental review and follow-up supports some of the central reasons for having an accountability regime. Such a regime is an indispensable means towards the achievement of core goals, in this case improved capacity and standards of living in First Nations communities and (to quote the Department) "to build public confidence, on and off reserve, that resources are being managed effectively.[2]" The other central reason for having an accountability regime in which all partners play a full role is, as former Deputy Minister Serson told this Committee, that "the Minister is accountable to Parliament for the use of public funds. First Nations chiefs and

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[2] Indian and Northern Affairs Canada, *Report on Plans and Priorities, 1999 – 2000*, p. 10.

councils are therefore accountable to the Minister for these funds." Parliament, the Department, and the First Nations and their members can only play their respective roles on the understanding that the data reported for accountability purposes are relevant, timely, complete and reliable beyond question.

It thus comes as a disappointment to the Committee to learn of inadequacies in the Department's review and follow-up (where necessary) of First Nations' self-assessments of their accountability and management regimes and of development plans. Specifically, the audit found that:

- There was often no evidence that the Department had corroborated positive self-assessments (which were more frequent than negative ones) to confirm their validity;
- None of the self-assessments were signed by the First Nations as a demonstration of formal acceptance and endorsement of the results, a factor which limited their usefulness;
- Many self-assessments were missing;
- More than one in three of the required self-assessments had not been completed;
- The Department does not have a national database containing essential information from the self-assessments that have been received, and
- Development plans often did not fully address the deficiencies identified in the assessments.

The Committee welcomes indications that 80% of the self-assessments had been received as of the hearing date and that the completion rate is expected to rise to 100% by this fall. Additional measures must be taken, however, to ensure that self-assessments attain their full potential as a tool for improving funding arrangements and overall accountability, and for reducing risk. The Committee therefore recommends:

That the Indian and Northern Affairs Canada verify information reported through self-assessments and review development plans for their adequacy on a test basis, with particular emphasis on positive self-assessments submitted in high-risk cases;

That, in those cases in which self-assessments have not been submitted according to agreed-to deadlines or contain incomplete or incorrect information, the Indian and Northern Affairs Canada work closely with the community in question to build up capacity and understanding to appropriate levels;

That, in those cases in which problems with self-assessments persist, the Indian and Northern Affairs Canada suspend funding until those problems have been resolved;

That the Indian and Northern Affairs Canada arrange to have First Nations leadership provide formal written indication that they accept and endorse all self-assessments that have been submitted; and

That the Indian and Northern Affairs Canada establish a national data base that captures information submitted through self-assessments, as well as the timeliness and comprehensiveness of submissions, as well as their validity and departmental follow-up where appropriate.

The Department has correctly determined that redress – the opportunity for First Nations and their members to obtain an objective review and resolution of allegations – is a key element of an effective accountability regime. Redress is included among the terms and conditions of funding arrangements and the Department considers that it has a role to play in managing allegations. This role involves the receipt of allegations, deciding the extent to which the Department should be involved in resolving them, and where the case in question should be referred.

The audit found evidence of shortcomings in the way the Department manages this role. For example:

- Senior departmental managers were given inadequate guidance on how to assess allegations;
- The Department does not have a national reporting system to help manage allegations, thus leaving it without an overall picture of the nature, frequency, or ultimate disposition of allegations;

- As a consequence of incomplete data in its possession, the Department's reported receipt of over 300 allegations over a two-year period is, according to the Auditor General, the "minimum known number"; and
- The Department's self-assessment workbook only contains one question on redress and this question asks only if a dispute resolution and appeal process to address complaints is in place.

These, as well as other observations led the Auditor General to report that the Department "is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements are appropriately resolved." He also concluded that because the Department does not have sufficient documentation of, or documentation standards for, allegations, it is "at risk should it need to demonstrate to other parties that it acted appropriately."

For his part, Mr. Wallace acknowledged in his opening statement that the Department has more work to do in this area. Actions currently underway include an updating of the guidance provided to senior managers, and working with First Nations in order to improve their internal capacity to deal with allegations. The Department is studying the feasibility of setting up a national registry for allegations.

The Committee welcomes the Department's acknowledgement of the need for further action in the area of redress and recommends:

That the Indian and Northern Affairs Canada proceed with the revision of its guidelines on allegations and that the following issues be particularly addressed: evaluation of the merits of an allegation; decisions concerning what additional information may be needed; who should collect any additional information; and, how decisions should be made regarding who – the Department, First Nations, or other authorities – should resolve allegations; and

That guidelines on the treatment of allegations include clarification of the responsibilities of the Department and First Nations regarding the determination of the merits of an allegation, the nature of the risks involved, the setting of priorities, the identification of alternative actions, and preventative measures.

Furthermore, the Committee also recommends:

That the Indian and Northern Affairs Canada establish a target date for the completion of revised guidelines on how it will deal with allegations, and that it inform its First Nations partners and Parliament of that date.

Information on the nature of allegations, the conditions that give rise to them, and how they are resolved all support accountability and should be used to adjust funding arrangements. The Committee therefore recommends:

That the Indian and Northern Affairs Canada develop a national database to record allegations and their disposition. This database should include information on the nature of allegations and the conditions that have produced them, areas of high and low risk within and among different First Nations, and an assessment of the impact on accountability and funding arrangements.

Because the Committee firmly believes that Parliament must be kept informed of the operation of redress mechanisms, it recommends:

That the Indian and Northern Affairs Canada include information on the number and type of allegation received during the previous fiscal year and their ultimate disposition in its annual Departmental Performance Report, beginning with the Report for the period ending 31 March 2001.

During testimony, the Department indicated that it now has audit review committees that meet every month to examine audited financial statements submitted by First Nations and departmental officials will be going out to meet with the first nations to discuss progress on those audits. This is clearly a step in the right direction. However, it

came to the Committee's attention during the hearing that the financial statements of First Nations are not subject to public disclosure.

Mr. Wallace explained that owing to a 1988 court decision, the integrity of financial statements is protected because they are often consolidated statements that contain reports on businesses owned by First Nations. In response to questions, Mr. DiBartolo indicated that the Department might consider including a provision in funding arrangements that would require disclosure of those aspects of financial statements that relate directly to the receipt and disposition of public funds without touching on privately owned businesses. The Committee strongly believes that financial statements should be available publicly and accordingly recommends:

> **That the Indian and Northern Affairs Canada include a provision in all future funding arrangements that calls for public disclosure of all elements of First Nations' financial statements relating to the receipt and disposition of funds provided by the federal and provincial governments of Canada.**

Conclusion

As a result of its examination, the Committee has learned that funding arrangements are one of the most important cornerstones of managing the relationships between First Nations and the Canadian government. Furthermore, the Committee has learned that the Indian and Northern Affairs Canada manages federal government responsibilities in this area in the context of a complex and challenging environment. Over the course of several years, the Department and its First Nations partners have taken steps in the right direction. These steps should enhance the accountability of all partners while adding to First Nations' capacity and bettering the living standards of affected communities.

However, the Committee has also learned that the Department needs to do better in its monitoring of the operation of funding arrangements, gathering, keeping, and analyzing data, getting input from the First Nations on the design of funding arrangements, and managing and recording data on allegations. Many, if not all, of the necessary structures are already in place and the Department has expressed its willingness to take action. All that remains is for the structures to be fully and properly used, and the actions to be vigorously taken.

The Department needs to develop a plan that includes timelines for the full adoption of new funding arrangement. It needs to ensure that this new arrangement is flexible enough to meet the varying capacities of individual First Nations while at the same time providing the fullest possible assurance that value for money is being achieved. And the Department needs to make sure that the mechanisms are in place that will deal with allegations expeditiously, fairly, and in a way that sees to it that satisfactory resolutions are achieved. These are not simple challenges, but the Committee believes that the right combination of determination, co-operation, and attention to constructive recommendations will result in meaningful progress.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings *(Meeting No. 2)* is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 15 December 1999

Pursuant to Standing Order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

THIRD REPORT

The Standing Committee on Public Accounts has considered the April 1999 Report of the Auditor General of Canada – Other Audit Observations *(National Defence and Health Canada: Non-compliance with conditions and inadequate monitoring with respect to the pre-licensing use of an anti-malarial drug)* and the Committee has agreed to report the following:

Introduction

The health and safety of the men and women who serve Canada in its armed forces is a matter of ongoing concern to the Standing Committee on Public Accounts. In recent years, the Committee has examined the results of audits performed by the Auditor General of Canada on the Department of National Defence (DND) and its management, procurement, and planning systems. The reports tabled by the Committee following these examinations have placed a strong emphasis on measures aimed at reinforcing the safety of armed forces personnel.

Based on its continuing interest in the Department of National Defence, the Committee decided to examine an audit note included under Other Audit Observations in the April 1999 Report of the Auditor General of Canada. This note reported the results of an audit that was done of circumstances surrounding the administration, in the fall and winter of 1992, of an (at that time) unlicensed drug to Canadian peacekeepers by DND under conditions established by Health Canada.

In order to develop a better understanding of what had happened and to inquire into corrective measures taken since April 1999, the Committee met with witnesses on 18 November 1999. Mrs. Maria Barrados, Assistant Auditor General, and Mr. Ronald Campbell, Principal, Audit Operations Branch, represented the Office of the Auditor General of Canada. Mr. Dann M. Michols (Director General, Health Protection Branch and Mr. Ian MacKay (Manager, Special Access Programme, Bureau of Pharmaceutical Assessment) represented Health Canada. Brigadier General Claude Auger (Surgeon General and Commander, Canadian Forces Medical Group) and Lt. Colonel Greg Cook (Head, Public Health, Directorate of Medical Policy) appeared as witnesses for the Department of National Defence (DND).

Background

In the fall and winter of 1992, Canadian armed forces personnel were sent on a peacekeeping mission to Somalia, a country in which a drug-resistant form of malaria was prevalent. In order to protect its personnel, DND dispensed an anti-malarial drug – mefloquin – that was known to be effective when traditional drugs were not and was already approved for sale in 29 countries. At that time, however, mefloquin was unlicensed in Canada and only available under a clinical trial (called a Safety Monitoring Study).

DND was under obligation to adhere to the conditions imposed by the trial, conditions approved by the federal department that licences drugs for sale in Canada – Health Canada. These conditions, collectively known as a protocol, required DND to obtain informed consent from its personnel and to keep careful records of the drug's use

and possible side effects on a regular basis. These records and data were to be submitted to the drug's manufacturer – which was responsible for conducting the trial – at six-month intervals. This data would be used to better understand the drug's effects under field conditions and to establish its safety and efficacy before its manufacturer would be granted a licence to sell mefloquin to the general Canadian public.

Although the Department had obtained mefloquin for its personnel in the past and had met the conditions imposed by the trial, it did not do so on this occasion. The approximately 900 troops deployed to Somalia were given an oral briefing on mefloquin and its possible side effects prior to departure. No written documentation was given to them and their consent was not obtained. DND did not systematically monitor the drug's efficacy or adverse reactions among its personnel while in the field and, consequently, did not provide the manufacturer with the required records or data.

DND stated that it was of the opinion that it had the approval of Health Canada to waive the requirements of the protocol. In fact, no such authorization was sought or obtained. According to the Department, poor communications between two of its divisions were at fault; each thought that the other had applied for and received permission to set the protocol aside, but neither had checked or informed the same.

Apart from establishing the protocol for the drug trial, Health Canada took a hands off approach, in conformity with its procedures regarding all such trials. It approved the study design and protocol for the Safety Monitoring Study and the manufacturer conducted the trial.

In January 1993, Health Canada licensed mefloquin and the drug became available on the market in March 1993. In October 1994, after the media raised questions about the use of the drug on the Somalia deployment, the Department asked the manufacturer for its records on the 69,000 doses of mefloquin provided DND in 1992. The manufacturer responded that it had no such records and Health Canada pursued the matter no further. In its final report on the drug trial issued in April 1993, the manufacturer indicated that other participants in the trial had also failed to provide information required by the protocol.

Neither the Department of National Defence nor Health Canada disputed the Auditor General's description of the circumstances surrounding DND's acquisition and use of mefloquin.

Observations and Recommendations

In testimony before the Committee, DND acknowledged its responsibility for what happened and explained that at the time of the Somalia deployment, mefloquin was the most effective drug available to protect its personnel against malaria. DND then described the actions it has taken to prevent a reoccurrence of the 1992 event. The Department has:

- Established a regulatory affairs position to serve as a single contact point with Health Canada and produce better documentation of the discussions between the two departments; and
- Confirmed, via a directive, a requirement and procedure for acquisition, distribution, use, and recording of unlicensed medical products.

The Department is now developing a detailed drug and vaccine sheet for the benefit of the Canadian forces health care provider and Canadian Forces members, and is also developing an adverse effect monitoring and reporting database.

The Department of National Defence failed to adhere to the protocol established for the clinical trial when it dispensed mefloquin for use on the Somalia deployment, an error that it has acknowledged. It must shoulder its

share of the blame for what occurred, especially with regard to the breakdown in inter-divisional and inter-departmental communication. The Committee acknowledges the extraordinary circumstances surrounding deployments, accepts the Department's explanations and finds that the corrective actions it has taken appear to be appropriate. The Committee fully expects that this incident will not be repeated and recommends:

> **That when it participates in trials of unlicensed drugs, the Department of National Defence take every necessary measure needed to ensure that its inter-divisional and inter-departmental communications function properly and that the protocols for such trials are adhered to scrupulously.**

In addition, the Committee recommends:

> **That the Department of National Defence include a discussion of its efforts to improve its control over, and use and monitoring of, unlicensed drugs supplied under the terms imposed by clinical trials in its annual Departmental Performance Report for the period ending 31 March 2000. If the Department has obtained and administered unlicensed drugs during this period, it must clearly link the results obtained with the measures it has taken.**

In his testimony, Mr. Michols suggested that Health Canada's involvement in clinical trials is an active one. He indicated that the Department sought to ensure that Canadians had access to mefloquin by "working with the manufacturer to sponsor a special clinical trial" for the drug, a statement that implied an ongoing interaction between them. This impression of a department actively engaged in the trial process, or at the very least, actively aware of the trial as it unfolded, was reinforced by this subsequent statement:

> In a general way, drug development relies on an effective partnership between Health Canada as the regulator, the pharmaceutical industry, physicians and other health care professionals and the institutions with which research is conducted as well as with the patients themselves. Within this partnership, Health Canada is responsible for ensuring that clinical trials are designed according to national and international scientific and medical standards and that the patients are not exposed to undue risk.

In this instance, however, if Health Canada was a partner, it was largely a silent one. Health Canada was unaware that the manufacturer had not received records required by the protocol. In particular, Health Canada was unaware that a significant number of records from a large federal government department (DND) participating in the trial were not being submitted to the manufacturer. Claims to partnership with the manufacturer seem limited, therefore, to the period during which the protocol was developed and afterwards when the drug was licensed. Any partnership between Health Canada and DND regarding this trial simply did not exist and, therefore, cannot be said to have existed between Health Canada and this group of patients either. Health Canada did not ensure that these patients were not exposed to undue risk, or at the very least, did not assure itself of that fact. While Mr. Michols testified that Health Canada "does monitor adverse drug reactions submitted by the sponsor of a clinical trial through the course of that clinical trial," that works only if the trial participants are submitting the required reports. The absence of a significant body of data – including potential data on adverse affects – could not have benefited this trial or the reliability of the conclusions drawn from it. Mr. Michols' assertion that Health Canada "has confidence in the partnership it has with clinical trial sponsors and physicians" concerns the Committee greatly in light of the failure to obtain the required reports and data during this trial and to ensure the existence of an effective partnership between itself and all trial participants. These concerns must be seriously addressed by the Department.

Health Canada testified that when it licensed mefloquin in January 1993, it received a "comprehensive data package" that included data from well-designed clinical trials. However, this comprehensive package did not include records for, or data derived from, 33.8 percent of the 501,424 pills dispensed during the trial or records for 34.9 percent of the patients. And it contained no records whatsoever of the 69,000 pills dispensed to the approximately 900 Canadian peacekeepers deployed to Somalia.

Health Canada claims that it compensated for gaps in the Canadian data with information derived from trials conducted elsewhere and from international post-marketing data. If this is so, and if these data were considered sufficiently reliable as to obviate the necessity of having complete data from the Canadian trial, one might well ask why Canadian trials are deemed necessary in the first place. The Committee is seriously concerned about Health Canada's failure to obtain complete data from the Canadian clinical trial when it considered licensing mefloquin for sale in this country. Health Canada must also take this concern of the Committee's into serious consideration.

Health Canada licensed Mefloquin in January 1993. In March 1993, the drug became available for sale on the Canadian market. In April 1993, the manufacturer issued its final report on the drug trial. That report indicated that the manufacturer had not received the records for all of the pills dispensed or all of the patients who had received them. In October 1994, 21 months after mefloquin had been licensed, 19 months after it went on sale, 18 months after the manufacturer's final report, and after use of the drug during the Somalia mission became an issue in the media, Health Canada approached the manufacturer in search of the data from DND. The manufacturer did not have these records and was unable to get them from DND. Health Canada took no further action. Mr. Michols testified that this was "primarily because there was no further action to be taken" since the drug had already been licensed.

Health Canada licensed this drug despite the fact that it had not verified the full status of the trial as it unfolded and despite the absence of complete data once the trial had ended. If it was indeed aware that a full set of data from the Canadian trial was not available and that the protocol had not been completely followed, it went ahead and issued a licence anyway, based in part on the fact that the drug had been tested and licensed elsewhere.

Health Canada has no procedures for monitoring the conduct of studies or clinical trials and Mrs. Barrados testified that "there is a need to strengthen measures for ensuring compliance with the approved protocols" for these trials. Mr. Michols reflected Health Canada's agreement with this when he indicated that the Department is

> In the process of considering several reforms to the clinical trial review process…reforms [that] will increase the protection of research subjects participating in clinical trials and implement more efficient review processes.

Mr. Michols went on to state that these proposed reforms "will include development of an audit system of clinical trials with regard to compliance with international guidelines on the conduct of clinical research." Mr. Michols added that the implementation of an audit system "will ensure that research in Canada is conducted in accordance with these high [international] standards, and increase the integrity of data generated in support of drug marketing applications." He then noted that such a move would require regulatory change and that the Minister of Health is proposing to make those changes within two months. Mr. Michols did not clarify what kind of audit the Department has in mind nor did he offer any reasons why this should require regulatory change.

When questioned as to why an audit procedure is still not in place five years after this incident came to light, Mr. Michols suggested that the problem was "one of resources and priorities." In further testimony, he indicated that those resources will be made available to the Department. He concluded by stating that "now is the time to do it." The Committee is relieved to learn that the Department intends to take action and recommends:

> **That Health Canada independently develop an audit system to monitor clinical trials of unlicensed drugs randomly and at regular intervals;**
>
> **a) That Health Canada proceed to make the necessary regulatory changes in order to implement this audit system;**
>
> **b) That Health Canada develop a timetable for the implementation of an audit system to be used to monitor clinical trials. This timetable should include benchmarks for the completion of various components of this process and should be submitted to the House of Commons Standing Committee on Public Accounts no later than 31 March 2000; and**

c) **That Health Canada describe, in its Plans and Priorities document for fiscal year 2000 – 2001, the audit system it proposes to implement and the human, technological, and financial resources it intends to dedicate to it.**

Mr. Michols indicated that Health Canada was also considering other, unspecified, reforms to the clinical trials review process. The Committee believes that these proposals should be made available to Parliament in order that Parliament may review and comment on them and, where appropriate, support their timely adoption. The Committee therefore recommends:

That Health Canada include a discussion of the proposed overall changes that it is considering to the clinical trials review process in its Departmental Plans and Priorities document for fiscal year 2000 – 2001.

Because the Committee sincerely hopes that the implementation of an audit system and other reforms will help prevent a situation similar to the one reported in this audit note, it also recommends:

That Health Canada include reports on its audits of clinical drug trials, as well as the outcomes generated by other reforms to the clinical trials review process, in its annual Departmental Performance Reports, beginning with the Report for the period ending 31 March 2001. Where appropriate, a discussion of measures taken to correct problems brought to light by audits and other measures must also be included.

The results that were reported in this audit note and the evidence provided by witnesses raise a number of serious questions about Health Canada's role in drug development and licensing. Accordingly, the Committee recommends:

That a Standing Committee of the House of Commons be given the task of reviewing the manner in which drugs are developed, tested, and licensed for sale in the Canadian market.

Conclusion

The Committee places high importance on the health and safety of men and women in Canada's armed forces and, indeed, on the health and safety of all Canadians. Canadians expect that Health Canada will take all reasonable measures to ensure that the drugs that are offered for sale on the Canadian market are safe and effective. Canadians also expect that the Department of National Defence will take every measure to protect the health and safety of those who place their lives at risk in the service of their country. In these matters, there can be no room for compromise, no room to assign secondary priorities, no room to allocate insufficient resources, and no room for breakdowns in inter-divisional or inter-departmental communication.

The steps taken by the Department of National Defence as well as those planned by Health Canada, although belated, are welcome. The Committee accepts the sincerity of those involved and has noted Health Canada's belief that the system is a safe one. Nevertheless, systems are only safe to the extent that their rules are adequate and are scrupulously implemented. And all witnesses agreed that a safe system could be made even safer. To repeat the words of Mr. Michols, "the time to do it is now."

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings *(Meetings No. 4 and 9)* is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Friday, 25 February 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FOURTH REPORT

The Standing Committee on Public Accounts has considered Chapter 1 of the April 1999 Report of the Auditor General of Canada (Correctional Service Canada – Reintegration of Offenders) and the Committee has agreed to report the following:

Introduction

Correctional Service Canada (CSS, the Service) is responsible for fulfilling two crucial responsibilities in Canada's criminal justice system – the incarceration of offenders and their safe reintegration into Canadian society. In recent years the Service's fulfilment of these responsibilities has been the subject of a series of audits by the Auditor General of Canada. The House of Commons Standing Committee on Public Accounts has reviewed the results of these audits, and has, in turn, tabled several reports on the subject. These reports and the recommendations contained in them were intended to assist CSC in its efforts to become more efficient and economical while ensuring that offenders are dealt with in ways that better guarantee the safety of Canadians.

In his April 1999 Report, the Auditor General issued the results of an audit that revisited a broad range of the Service's activities whose collective purpose is the safe reintegration of prisoners. Due to its past involvement in this subject and its continuing interest in safe and effective reintegration, the Committee decided to examine the results of this recent audit. It met, therefore, with Mrs. Maria Barrados, Assistant Auditor General, and Mr. Ron Wolchuk, Principal, Audit Operations Branch, Office of the Auditor General of Canada, and Mr. Ole Ingstrup, Commissioner of the Correctional Service of Canada, on 25 November 1999.

Background

Correctional Service Canada's responsibility for reintegrating offenders into society begins on the first day of incarceration and does not end until expiry of sentence. Upon entering the prison system, offenders are assessed (Offender Intake Assessment) to determine the level of risk they pose, the level of security they require, and the right mixture of programs they need to address the factors that led to their criminal behaviour (Correctional Plan). This process of assessment, followed by development of a Correctional Plan and completion of prescribed programs should occur before an offender's first parole eligibility date. During this phase, which takes place in an institutional setting, the Service must prepare a report for the National Parole Board for use when it determines if an offender should be released on parole. The Service also reassesses offenders on an annual basis to determine if correctional programs are working and if the level of security remains appropriate. For those who have been granted parole, a second phase of the reintegration process takes place in the community. Correctional Service is responsible for monitoring offenders at this critical stage when sentences remain in effect and the potential threat to public safety is at its highest.

Previous audits have revealed shortcomings in every phase of this process. Official documentation needed by the Service to initially assess offenders was routinely late in arriving or absent altogether. Assessments and reassessments frequently resulted in the assignment of offenders to institutions whose level of security did not match

the risks they posed. Programs were frequently not completed before offenders reached their first parole eligibility date with the result that many of them were staying in institutions longer than they should have. This in turn hampered reintegration, strained the capacity of the institutions to house offenders, and increased the Service's costs. Once offenders were released on parole, the Service often did an inadequate job of monitoring them. The level of resources allocated to reintegration by the Service was heavily weighted in favour of the institutional phase with the result that programs delivered in a community setting were inadequate. Communication between Service employees with reintegration responsibilities in the institutions and those outside was poor and between them collectively and CSC management no better. In summary, there was much that needed corrective action before the system could be deemed effective, efficient, economical, and above all, safe.

Observations and Recommendations

In contrast to the results of past audits, recent findings reported in the April 1999 Report of the Auditor General are encouraging. The Service has recognized that major changes are needed to its corporate culture and its processes. It has adopted an ambitious approach aimed at producing improvements in both areas. In February 1999, following the work of a task force on reintegration, three national reviews, and several simultaneous pilot projects, CSC implemented Operation Bypass in all of its regions. Its goals are to reduce duplication of tasks and information, consolidate reports on offenders, and strengthen communication and co-ordination between institutional and community parole officers.

The Service has also taken other, more immediate steps to improve the reintegration process, including:

- Strengthening its national headquarters organization, which provides overall direction and co-ordination for changes in the offender reintegration process;
- Developing and implementing an evaluation framework to assess the effectiveness of intervention programs. Under a new policy, each rehabilitation program is to have clear objectives, criteria for selecting participants, and a process for evaluating their progress. The Service is setting up panels of experts to accredit programs. Programs will then be re-accredited every five years;
- Adopting a more balanced approach to institutional and community programming;
- Improving its offender risk assessment tools and processes;
- Improving performance information concerning case management activities including an increased capacity to acquire, organize and analyse performance data in a more timely manner; and
- Making lessons learned activities and the sharing of best practices an effective part of the Service's corporate culture.

In its Report and opening statement to the Committee, the Office of the Auditor General expressed its conviction that the Service "has made a concerted effort to respond to many of [the Auditor General's] previous concerns and observations" and is "now moving in the right direction" as evidenced by the above initiatives.

Despite signs of progress, however, the Auditor General found that Correctional Service Canada has work to do in the following areas:

- more timely acquisition of official documents for offender assessment;
- more timely casework preparation to meet the offender's first parole date;

- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and
- improved adherence to national standards for frequency of contact with offenders in the community.

Although he was pleased with the progress made by his organization and the Auditor General's largely positive conclusions, the Commissioner of Correctional Service told the Committee that he was "in no way delighted" by the Report's findings, and that the good news in the Report "is not enough." *Mr. Ingstrup then indicated his full agreement with the Auditor General's nine recommendations and committed himself and CSC to take action on all of them.* The Commissioner also agreed to make CSC's action plan developed to address the recommendations available to the Committee and it awaits the receipt of this document within the near future.

The Committee welcomes the Commissioner's acceptance of the audit's findings and recommendations, and his determination to use them to improve the reintegration of offenders. The Committee wishes to assist Correctional Service of Canada in its efforts and, in that spirit, offers several observations and recommendations of its own.

As noted above, it is important that the Service receive relevant documentation when an offender first enters the system. CSC has determined that this set of documents consists of an official version of the offence that was committed (court documents, police report or pre-sentence report), police records detailing the offender's criminal activity, and a Post-Sentence Community Assessment that covers issues such as the offender' s employment history, family relations, behavioural problems and victim information.

If these documents are not received on time, the result is a chain reaction that spreads throughout the reintegration process, undermining its effectiveness and potentially exposing society to unnecessary risk. Knowledge, therefore, that approximately one quarter of these documents are not received within the Service's own 56-day time frame and that "parole officers were completing many Offender Intake Assessments before receiving either the desired police reports or the Post-Sentence Community Assessments (or both)," is of considerable concern to the Committee.

The Service has agreed with the Auditor General's recommendation that it look for ways to improve timeliness of receipt of documents, but has added that it "has no authority to compel" outside agencies to provide information in a timely manner. This overlooks the Auditor General's earlier observation that between July and September 1998, less than 40 percent of the Post-Sentence Community Assessments met the Service's 30 to 45 day standard for preparation. These documents do not come from outside agencies; they come from within the Service itself. The Service needs to make improvements in an area that it – and no one else – is supposed to control. The Committee notes the Commissioner's determination to assert this control and recommends:

> **That Correctional Service develop and implement an action plan to ensure that all Post-Sentence Community Assessments are prepared and received within its standard. This action plan should include the means to be used and a target implementation date, and should be submitted to the Standing Committee on Public Accounts no later than 30 April 2000. Progress in implementing this plan should be reported in the Service's Performance Reports beginning with the Report for the period ended 31 March 2001.**

While the Committee is aware that the Service cannot compel other agencies to provide needed information, it does not believe that this should stand in the way of other measures that are available. Indeed, the Committee observes that in four of its regions, the Service has memoranda of understanding and agreements with

provincial governments and municipalities for the timely receipt of documents. With this in mind, the Committee recommends:

> **That Correctional Service Canada make a concerted effort in all of its regions to obtain the co-operation of outside agencies in order to secure the timely receipt of documents required for Offender Intake Assessments and that it report to Parliament on the progress made in this regard in its annual Performance Report beginning with the Report for the period ending 31 March 2001.**

Once initial assessments are completed, a Correctional Plan is drawn up. Offenders must complete the rehabilitation programs prescribed by the Plan before date upon which they first become eligible for parole. The Auditor General observes in his Report that "failure to prepare offenders in time for their first parallel eligibility date may adversely affect their chances for safe reintegration." He then reports that as of November 1998, 21 percent of incarcerated offenders had not had a National Parole Board hearing and were past their eligibility date for either day parole or full parole. While this may be the result of the offender's own preferences, it may also be the consequence of the Service's inability to prepare the offender's case in time.

In his examination of the Service's case management process, the Auditor General found that CSC often fell short of its own time standards. About one third of offenders with two-to-three-year sentences were not assessed within the CSC's standard of 56 days. In 1996, the Auditor General estimated that on average, low-risk/low-need offenders were prescribed three rehabilitation programs and that 105 days was the shortest time in which these programs could be completed. In 1998, only 60 days were available for completion of this process before the earliest eligibility date. The goal that has been set for Operation Bypass is 106 days for the completion of programs, assessments, and the preparation of reports in time for the National Parole Board's requirement that it have case documents at least 21 days before a parole hearing. This goal, while ambitious, leaves virtually no room for delay or unforeseen events. Consequently, the Committee recommends:

> **That Correctional Service Canada redouble its efforts to ensure that a maximum amount of time is available for the effective completion of intake assessments, Correctional Plans, rehabilitation programs, and reports prior to offenders' earliest parole eligibility dates. The progress achieved by these efforts should be presented in the Service's Performance Reports, beginning with the Report for the period ending 31 March 2001.**

In his Report, the Auditor General also draws attention to the poor quality of the reports prepared by correctional officers for use by the National Parole Board. In 1997, the Service found that of over 3,000 documents it examined, 48 percent to 78 percent met quality standards. The Auditor General conducted a test of his own and discovered that 11 percent were poor, a number that increased to 16% when it came to reports on high-risk offenders.

On April 22, 1997, when he addressed this Committee, Mr. Ingstrup testified that the Service was "implementing a process in which line staff know what the quality expectations are, and apply them all the time." He went on to tell the Committee that "line supervisors will be expected to review staff work using CSC's quality standards, and they will have to give immediate, practical, constructive feedback." The Committee is disappointed that these efforts have not resulted in any substantial improvements and recommends:

> **That Correctional Service Canada provide thorough training to its correctional officers in the preparation of reports submitted to the National Parole Board, that it ensure that its senior staff develop procedures that will ensure the production of reports that meet the standards for quality that both it and the National Parole Board demand. The Service should report on the progress that has been made in this regard in its Performance Reports, beginning with the Report for the period ending 31 March 2001.**

There is a general recognition that programs designed to enhance the chances of an offender finding useful employment once he or she leaves a correctional facility is a key to effective reintegration. Although the Auditor

General notes several improvements since his last audit, he observes that "little information is available on the cost effectiveness of various types of employment programs," and that "uncertainty remains about the relative priority" of these programs and their role in effective reintegration. He goes on to report that the employment needs of offenders are not adequately matched with the programs that are available under CORCAN, a special operating agency within the Service. The Committee strongly believes that meaningful employment is a crucial element in preventing recidivism and that offenders must leave institutions with the right skills to get that kind of employment. The Committee therefore recommends:

That Correctional Service Canada regularly assess the cost effectiveness of its employment programs, that it make adjustments that are indicated as a consequence of that assessment, and that it report both the assessment results and program adjustments to Parliament in its annual Performance Reports, beginning with the Report for the period ending 31 March 2001.

The Committee also recommends:

That, by 15 September 2000, Correctional Service Canada develop and implement a strategy designed to ensure that offenders are provided with employment programs that accurately match their employment needs and that it submit this strategy to the Standing Committee on Public Accounts prior to that date.

Under current arrangements, most offenders are eligible for release prior to the expiry of their sentences. If an offender leaves a correctional institution under these circumstances, he or she serves out the remainder of the sentence in the community and under the supervision of CSC. The Auditor General reports that Service is now devoting more attention to its community supervision responsibilities. However, he indicates that in February 1998, the Service found that it was still having problems in making sure that there was sufficient contact between its personnel and offenders under community supervision. In particular, he noted that the percentage of offenders who were not contacted with the required frequency varied from a low of 11 percent to a high of 38 percent across CSC's five regions. The Service planned to implement a community workload formula in June 1999. This formula is intended to ensure that community parole officers will have enough time to satisfy the Services standards for contact with offenders under supervision in the community. Parliament and Canadians must have the assurance that offenders are being adequately supervised at this crucial stage and the Committee therefore recommends:

That Correctional Service Canada include data on the results achieved from the use of its new community workload formula in its annual Performance Report beginning with the Report for the period ending 31 March 2000.

The Committee has some pronounced concerns about the efficacy of the Service's offender risk assessment instruments, as well as their use. In their questioning of Mr. Ingstrup, several Committee members made reference to recent escapes from correctional institutions; it was thought that inadequate assessment tools or improper use of them, or both, were the cause of these incidents.

The Service makes use of the Custody Rating Scale to determine the appropriate institutional security level in which to place an offender. Parole officers have the authority to overrule the results obtained by the CRS and put an offender in a different security level. This process is known as an override and the Committee has expressed concerns in the past that the level of these overrides was excessive. The Service has responded to these concerns by adjusting the CRS in June 1998 to so that 34 percent of offenders would be placed in minimum-security institutions (previously the percentage was set at 15 percent). While this has had the effect of lowering the level of overrides, the Committee questions whether or not this was the right approach to use. Although the Auditor General reports that he found no evidence of a significant increase in the number of escapes as a result, the Committee believes that this possibility requires further investigation. The Committee accordingly recommends:

That Correctional Service Canada closely monitor the number and frequency of escapes among offenders who have been assigned to minimum-security institutions on the basis of assessments derived from its Custody Rating Scale and that it report this information to Parliament in its annual Performance Reports beginning with the Report for the period ending 31 March 2000.

The Committee also takes note that while the Service has tested the scientific basis for its risk assessment instruments, it has not thoroughly tested to determine whether its parole officers will use the instruments in a consistent and predictable way. The Committee firmly believes that this gap in testing needs to be addressed and recommends:

That Correctional Service Canada take immediate steps to test the reliability of its risk assessment instruments in order to determine if they are used by its staff in a consistent and predictable manner.

The Commissioner of Correctional Service Canada has indicated that it intends to correct many of the problems identified by this audit, as well as earlier audits, through its Operation Bypass initiative. This initiative was implemented by the Service in all of its regions in February 1999 and thus it has not been in operation long enough to provide results that the Committee could examine. The Committee believes that Parliament must be in a position to assess the outcomes generated by this initiative against its costs and objectives. The Committee therefore recommends:

That Correctional Service Canada include a detailed discussion of the results achieved by Operation Bypass in its Performance Report for the period ending 31 March 2000. This discussion must link the initiative's results with its objectives and the costs involved in its design, implementation, and operation. Clear references to those areas in which the initiative is intended to fulfil recommendations made by the Auditor General of Canada must also be included.

Under its Financial Information Strategy (FIS), the government of Canada intends to move to full accrual accounting. This transition, which is to be completed by 2001, should result in better financial information for use by departmental managers in day-to-day decision making. The Committee endorses the Strategy and expects that it will be implemented properly and on time. In keeping, therefore, with the Committee's belief that the use of financial information generated by the FIS will result in better program design, delivery, and effectiveness, the Committee recommends:

That Correctional Service Canada meet its FIS implementation target, that it ensure that the financial information generated as a result be fully incorporated into every aspect of its planning, program design, and performance measurement and reporting processes, and that it include this information and the outcomes generated by its use in its Performance Reports, beginning with the Report for the period ended 31 March 2001.

Conclusion

In her closing comments to the Committee, Ms. Barrados stated that the Office of the Auditor General of Canada is "pleased at how seriously the Service is taking [the Office's] audit report and how diligently they are making an effort to act on the issues" raised by the Office. The Committee, as well, appreciates the Service's acknowledgement that it has more work to do and its positive reaction to the Auditor General's Report and recommendations. The Committee expects that its own observations and recommendations will be accorded similar treatment.

Correctional Service of Canada plays a key role in the criminal justice system of Canada. Canadians rely on the Service to rehabilitate offenders and to ensure that when they return to society, it is under circumstances that are

safe. The Committee is under no illusions that this is an easy job. However, awareness that this is so points to the absolute necessity that this job be done well at every step of the way. The Committee will watch with great interest as Correctional Service moves to put in place the measures it has promised to see if these measures produce the hoped-for results.

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (*Meetings Nos. 6 and 13*) are tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Friday, 25 February 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FIFTH REPORT

The Committee, after considering the *Public Accounts of Canada 1998-99*, has agreed to present the following report.

Introduction

The *Public Accounts of Canada* summarize the operations of the federal government during its fiscal year, which ends on March 31 each year. They include, among other information, statements of the government's assets and liabilities, revenues and expenditures, accumulated deficit, changes in financial situation, and transactions.

The financial statements are submitted to the Auditor General of Canada, who audits them and provides an independent opinion on them. The statements, along with the Auditor General's opinion, are tabled in the House of Commons as the *Public Accounts of Canada*, and are referred to the Standing Committee on Public Accounts for consideration.

On October 26, 1999, the *Public Accounts of Canada 1998-99* were tabled in the House and referred to the Standing Committee on Public Accounts. On November 16, 1999, the Committee met to consider them. Denis Desautels, FCA, Auditor General of Canada; Ron Thompson, Assistant Auditor General; and John Hodgins, Principal, Audit Operations, appeared before the Committee on behalf of the Office of the Auditor General. J. Colin Potts, Deputy Comptroller General; Richard Neville, Assistant Secretary and Assistant Comptroller General; and John Morgan, Director, Government Accounting Policy, appeared on behalf of the Treasury Board Secretariat.

This Report contains the Committee's findings and recommendations following that meeting.

Findings and recommendations

Under section 6 of the *Auditor General Act*, the Auditor General shall examine the financial statements required under the *Financial Administration Act* and contained in the *Public Accounts*, and

> shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

The Auditor General is therefore required to express an opinion on the following aspects of these statements.

Fairness: Do the financial statements present the information fairly?

Compliance: Have the financial statements been prepared in accordance with stated accounting policies of the federal government?

Consistency: Have the accounting policies of the federal government been applied on a basis consistent with that of the preceding year?

In his introductory comments, the Auditor General made the following statement:

"In the previous three years, I expressed serious concerns with significant transactions that the government reflected in the financial statements at year-end. This year, I have expressed no such concerns and my audit opinion on the government's 1999 financial statements contains no reservations. I'm therefore able to inform parliamentarians that these statements present fairly the government's overall financial situation as at March 31, 1999".

An unqualified opinion on the government's 1998-99 financial statements gives parliamentarians confidence in comparing credible 1998-99 data with the Finance Canada forecasts contained in the *Economic and Fiscal Update*. The Auditor General emphasized that the annual financial statements and his audits of them constitute an important link in the accountability chain.

The Auditor General also asked the Committee to consider his comments on the following supplementary information:

- what the Auditor General's audit opinion means;
- accounting for the $3.5 billion supplement to the Canada Health and Social Transfer (CHST);
- the Financial Information Strategy (FIS);
- the persistent and growing problem of offsetting expenditures against revenues (netting);
- timely financial statements;
- the Debt Servicing and Reduction Account; and
- improvements in this year's Annual Financial Report.

The Auditor General also announced that his next *Annual Report* to Parliament would include a separate chapter on the FIS, as well as an audit finding on the financial statements of the Employment Insurance (EI) Account.

In the *Public Accounts of Canada 1998-99*, the Auditor General expressed the following opinion on the financial statements of the EI Account:

"[T]hese financial statements present fairly, in all material respects, the financial position of the Employment Insurance Account as at March 31, 1999 and the results of its operations and its cash flows for the year ended in accordance with the accounting policies set out in Note 2 to the financial statements."

The Auditor General added:

"I wish to draw to your attention that the surplus of the Employment Insurance Account has increased during the current year by $7.3 billion, to $21 billion. Under the *Employment Insurance Act*, and as described in Note 5 to the financial statements, premium rates should be established at a level sufficient to ensure that there will be enough revenue over a business cycle to pay the amounts authorized, while

maintaining relatively stable rates throughout the cycle. The Act does not define the level of surplus or reserve deemed sufficient to meet the objective."

In the Auditor General's opinion, given the present level of the EI Account surplus, it would be advisable to clarify and disclose the factors to be used in setting an appropriate level of reserve.

The Committee was particularly interested in the transparency of the processes for setting EI premiums and EI Account surpluses. One issue it raised was whether any EI Account surplus represented a federal government liability to Canadian taxpayers.

The Committee asked the Auditor General a number of questions on this issue. The Auditor General pointed out that the EI Account is not actually an account payable but more of a tracking account, to keep track of how much money has come in (including premiums, fines, penalties, interest and reimbursements) and how much money has been paid out (benefit payments). The monies coming in are paid into the Consolidated Revenue Fund and credited to the EI Account and the monies paid out are disbursed out of the Consolidated Revenue Fund and debited against the EI Account. Asked whether an EI Account surplus represented a liability, the Auditor General answered:

"When we talk about a surplus of $21 billion, it simply says the government has collected $21 billion more than it's paid out on a cumulative basis. So there's no debt created to anybody by that operation."

The Committee also considered the process for setting EI premiums. Questioned on this point, the Auditor General shared his concerns about this process, stating that the process lacked transparency, and that the EI Commission of Canada should disclose to Parliament the main factors it took into account in setting the level of reserve accumulated in the EI Account.

The Auditor General added:

"Actuarial studies now published, suggested that a surplus of between $10 billion and $15 billion would be sufficient. Not only is there a need for ongoing transparency; I think there is a need for a better explanation of why premium rates have been set that have produced a reserve of $21 billion, when the Department's actuary stated that a surplus of between $10 billion and $15 billion would be sufficient."

Specifically, under section 66 of the *Employment Insurance Act*, the EI Commission sets the premium rate "with the approval of the Governor in Council on the recommendation of the Minister and the Minister of Finance". The Chief Actuary's report on the EI premium rate is published when the Human Resources Development Minister and the Finance Minister jointly announce the rate. The joint statement contains information on the rate but no other indication of what factors the EI Commission took into account in setting it.

Since the *Employment Insurance Act* is not clear about the allowable level of the EI Account surplus or reserve, no one can determine whether the EI Account surplus is excessive. The *Act* provides only that the Commission is to set a premium rate that, over a business cycle, will ensure that there is enough revenue to pay the amounts authorized to be charged to the EI Account, and will maintain relatively stable rate levels.

The Committee therefore makes the following recommendation:

That Human Resources Development Canada disclose to Parliament all the factors used by the EI Commission in setting the EI premium rate and the level of reserve required in the EI Account.

The Committee then questioned the Auditor General about progress made on the FIS and whether the government would be able to implement full accrual accounting by the April 1, 2001 target date.

The Auditor General said it was quite important to meet the target date and not let it slip; he added that other countries had managed to carry out similar changes in a relatively shorter time frame.

According to the Auditor General, the government might need to re-examine whether it was devoting enough skilled, experienced resources to be able to implement FIS fully and on time.

The Auditor General added that, if FIS implementation is in danger of being delayed, the government could consider partnerships with the private sector in order to speed up conversion to full accrual accounting.

In closing, the Auditor General noted that FIS implementation had the commitment from Deputy Ministers and heads of agencies, but that this commitment was somewhat uneven and could be strengthened; he suggested that a firm commitment to full FIS implementation be obtained from each Deputy Minister.

In his opening presentation, concerning FIS, Mr. J. Colin Potts stated:

> "It's also very important to the government to see that the Auditor General fully supports our goal of implementing the Financial Information Strategy or FIS in 2001-2002. In his observations, he has recognized the progress that we have made to date. We realize that, while there is considerably more work remaining to be done to achieve this goal, it will be well worth the effort. We believe the end result will significantly improve financial reporting within departments and on a national basis, and over time lead to more effective decision making across government. The Auditor General has noted that he will have more to say on this topic when he tables his report at the end of November. Should the Committee so desire, Mr. Chairman, we would welcome the opportunity to meet with the Committee on this subject, following the tabling of his report."

The Deputy Comptroller General added:

> "However, the transition to full accrual accounting is not without risks. It involves considerable effort and change to our processes and systems as well as training for both financial and non-financial staff. Over the next three years we will manage these risks to ensure as smooth a transition as possible. This transition involves changes to a number of accounting policies. The Auditor General agrees with our strategy to make all the necessary policy changes in one fiscal year, rather than spread them out over a number of years".

The Committee asked the Deputy Comptroller General if the FIS initiative was progressing on schedule.

Mr. J. Colin Potts reminded the Committee that the FIS consists of three elements: changes to accounting policies and procedures, the implementation of new accounting systems in all departments and agencies, and personnel training. With respect to the first phase, i e, the conversion of accounting policies and procedures to full accrual accounting, the Deputy Comptroller General said that the basic policies are in place but that work remains to be done to help the departments in interpreting the new policies and procedures.

The second element, that of replacing the accounting systems, is being implemented over a three-year period. The Deputy Comptroller General told the Committee that since April 1, 1999, the introduction of new central systems has been completed on schedule. Some departments have already converted their systems, while many others are expected to complete their conversion before April 1, 2000. The FIS requires the conversion of all federal government accounting systems by the deadline of April 1, 2001. Mr. J. Colin Potts conceded that this is a considerable challenge, but said he thinks it can be achieved on schedule.

The third and final element in the FIS is training for personnel. The Deputy Comptroller General admitted that the training of financial and non-financial personnel in full accrual accounting remains a major challenge, but said that there are training programs already in place and that he anticipates continuing and even stepping up the training effort over the next 18 months.

The Committee recognizes the importance for the government of the FIS initiative and considered the witnesses' evidence very carefully. Your Committee therefore makes the following recommendations:

That the Treasury Board of Canada Secretariat take all necessary steps to ensure full implementation of the Financial Information Strategy as scheduled, in particular by making sure that the Government allocates enough skilled and experienced resources to make a success of the initiative, and that it consider partnerships with the private sector in the event that resources, time or talent prove insufficient;

That the Treasury Board of Canada Secretariat develop a system of incentives to ensure a strong commitment on the part of senior management in federal departments, agencies and Crown corporations to full implementation of the Financial Information Strategy as scheduled; and

That the Treasury Board of Canada Secretariat monitor the FIS initiative to ensure that all stages are completed in a timely manner, to identify major risk factors that could compromise implementation of the initiative and to propose corrective measures, and that it report regularly to the Standing Committee on Public Accounts and therefore to Parliament on the progress of the Financial Information Strategy.

Finally, the Committee considered the question of delays in producing federal government financial reports. The section entitled "Matters Requiring Continuing Attention" in the *Public Accounts of Canada 1998-99* raised the issue of timely release of financial statements. In general, federal departments, agencies and Crown corporations take very seriously their responsibility to submit their financial statements in a timely manner so that these can be consolidated into the Public Accounts. However, according to the observations of the Auditor General, "other organizations are not as co-operative". This lack of co-operation delays the release of the Government's financial reports. The Auditor General recommended "a strict enforcement of department and agency reporting dates, so that timeliness will improve--both in the current process of preparing financial statements and in the framework envisaged under FIS". (*Public Accounts of Canada, 1998-99*, page 1.38)

In his evidence before the Committee, the Deputy Comptroller General had this to say:

"Another matter raised by the Auditor General is improvement in the timeliness of our financial reporting. We agree with this goal. However, significant improvement of the magnitude referred to by the Auditor General will only be possible with the successful implementation of the infrastructure supporting the Financial Information Strategy. In the interim we will continue to encourage departments to place additional emphasis on meeting our targets for reporting purposes. I would like to add that despite the considerable extra efforts being devoted by departments to implementing new systems in the transition to the Financial Information Strategy, we were able to finalize the Public Accounts within six months of our financial year-end. This was earlier than the previous year."

The Committee questioned witnesses about what the best achievable deadline would be for preparing federal government financial statements and also asked them to identify laggard departments and agencies for the Committee.

According to Mr. J. Colin Potts, it may be possible, further to the recommendations of the Auditor General, to prepare the consolidated financial statements within a three-month period. The Deputy Comptroller General said that this would be a desirable and achievable target.

As for identifying departments, agencies and Crown corporations that submit their financial statements late, the Deputy Comptroller General said that he did not have this information but stressed that the Treasury Board Secretariat was doing everything in its power to make sure that departments and agencies submit their financial statements in a timely manner to the central agencies responsible for preparing the Public Accounts.

The Committee therefore makes the following recommendation:

That the Treasury Board of Canada Secretariat develop a system of incentives to ensure that all federal departments, agencies and Crown corporations prepare their financial statements within the prescribed three-month period, and that it report regularly on the progress of this initiative to the Parliament of Canada and the Standing Committee on Public Accounts through the performance documents.

The Committee then asked the Auditor General to identify the departments that do not meet the deadline. The Auditor General said that he did not have this information at his disposal at that moment but that he would provide it to the Committee at a later date.

In a letter to the Committee dated 2 December 1999, the Auditor General described the process of preparing and auditing the Public Accounts. He also discussed the overall departmental adherence to the Receiver General's mid-June deadline for submission of year-end financial information. The Auditor General indicated that a significant number of departments had either missed that deadline or presented incomplete information. Although the letter did not include an exhaustive list, it did provide the following examples of departments that, for various reasons, did not comply with the deadline: Agriculture and Agri-Food, Finance; Health, National Defense; National Revenue; Public Works and Government Services; and the Treasury Board Secretariat.

Given their responsibility in co-ordinating the implementation of the Financial Information Strategy (FIS), the central agencies, particularly the Department of Finance and the Treasury Board Secretariat must show leadership by setting a strong example for other departments to follow in terms of submitting their final departmental financial information before or at the Receiver General's deadline.

The Committee therefore recommends:

That all central agencies in charge of co-ordinating the Financial Information Strategy, particularly the Department of Finance and the Treasury Board Secretariat, submit their final departmental information before or at the Receiver General's deadline, and that they report their progress in meeting the deadline to Parliament in their annual Performance Reports, beginning with their Reports for the period ending 31 March 2001.

Conclusion

The Standing Committee on Public Accounts recognises the effort that the Government of Canada puts into preparing its consolidated financial statements, and it is encouraged to see that for the fiscal year ending March 31, 1999, the Auditor General has given an unqualified opinion on the financial statements contained in the *Public Accounts of Canada, 1998-99*. However, the Committee remains aware that there are many challenges and issues to resolve in the preparation of the government's consolidated financial statements. These include in particular the transparency of the way the level of the reserves in the Employment Insurance Fund is determined, the full implementation of the Financial Information Strategy by the target date, the deadlines for submitting financial data, among others . The Committee urges the Government of Canada, and in particular the Treasury Board of Canada Secretariat, to accept their full responsibilities in order to ensure the accuracy, consistency and uniformity of financial information provided to the Canadian public and contained in the Public Accounts of Canada.

Pursuant to Standing Order 109, your Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings N^os 3, 10, 13)* are tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 22 March 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

SIXTH REPORT

The Standing Committee on Public Accounts has considered the *Performance Report of the Office of the Auditor General of Canada* for the period ending 31 March 1999, and the Committee has agreed to report the following:

Introduction

The Standing Committee on Public Accounts is a strong advocate of departmental Performance Reports as a means of conveying information to Parliament. In its reports to the House of Commons, the Committee frequently recommends that departments and agencies that have been audited include information related to those audits in their performance documents. In this way, Parliament and its Committees are advised of difficulties in the delivery of programs and services and, ideally, of corrective measures that have been taken and their results. The Committee strongly believes, as well, that departmental Performance Reports offer Parliament, departments, and Canadians an insight into government programs and services in terms of their ability to achieve their objectives in a way that is effective, economical, and efficient.

In the eyes of the Committee, accountability and the opportunity to exercise it are indispensable characteristics of any functioning democratic arrangement. In a democracy, decisions are made and actions taken on the basis of authorities conferred by citizens. Those in government, whether elected or appointed, act on the behalf of others using powers and funds that have been granted them. They are therefore in a position of stewardship and must use resources wisely and in a manner that accords with the general will of society. Since those in democratic governments act on behalf of others, it follows that they must be accountable to them as well. In order for this to take place, Parliament – which holds to account those who govern on behalf of citizens – must have a clear understanding of how public funds are spent and with what effect. Performance Reports are meant to provide this kind of information and are thus a key element, along with the Public Accounts of Canada, departmental Plans and Priorities Reports, and the Estimates, in the accountability of democratic governance at the federal level in Canada.

Performance Reports also represent a valuable tool in the hands of those in government who deliver key programs and services. Provided that the right approach is taken, the exercise of setting goals and measuring results gives departments and agencies the ability to improve the efficiency, economy, and effectiveness of their operations. Therein lies the key to government that costs less and works better.

As a consequence of the importance that it attaches to accountability, and measuring and reporting performance, the Committee decided to review the *Performance Report of the Auditor General of Canada* for the period ending 31 March 1999. On 23 November 1999, the Committee met with the Auditor General of Canada, Mr. Denis Desautels, FCA, and Mr. Michael McLaughlin, Deputy Auditor General, Corporate Services, to discuss the performance of the Office of the Auditor General of Canada during fiscal year 1998 – 99.

Observations And Recommendations

There are three fundamental ways in which to approach a performance report. The first and most obvious is to examine performance itself. Here, broad issues leading to good performance should be taken into account. Did

that performance meet, exceed, or fall short of stated expectations? What lessons have been learned as a consequence? Have steps been taken to improve performance that was disappointing? Have methods that have produced successful performance in one area been incorporated in others? Does the performance that is reported go beyond a simple concentration on activities and link those activities with the outcomes or results produced and resources consumed? And do those outcomes correspond with the goals that were established? In short, performance reporting should start with outcomes to be achieved, results to be obtained, and set the direction for improvement in areas of less than expected performance.

The second approach involves a consideration of performance goals and indicators themselves and the process involved in selecting them. This is crucial because the current performance-reporting regime is based largely on self-assessment. Accordingly, the entity that reports its performance also defines the goals to be achieved, establishes the indicators used to measure progress toward those goals, assesses the outcomes, and reports the results. A review of an entity's Performance Report should also, therefore, include an examination of the appropriateness of the goals and indicators used, as well as the selection process involved.

Finally, attention must be paid to the way in which performance information is presented in terms of its clarity and consistency. This is particularly so, given that Performance Reports are not intended to be 'stand alone' documents. Instead, they are meant to be used in close conjunction with other accountability documents in general and with the Estimates documents in particular.

Performance Reports are part of the cycle that begins with the tabling of the Estimates and the departmental Plans and Priorities Reports in the spring. The latter inform Parliament of departmental objectives, how they will be attained, and the mix of resources needed to support their achievement. The next step occurs with the tabling of the Performance Reports in the fall that tell Parliament if the goals for the previous fiscal year have been met, how they have been met, where they have fallen short, and the costs involved.

Performance Reports are also meant to be used in conjunction with the Plans and Priorities Reports and Estimates for the ensuing fiscal year so that parliamentarians can make informed judgements using historical information and contextual analysis regarding future spending and programs. In order to attain their full potential, therefore, Performance Reports must be crafted in a way that facilitates comparison with the other documents in the cycle. In addition, there should also be comparability between a department's performance documents of one year and those of preceding years. If all of these prerequisites are met, then a seamless flow of comprehensible information is made available to Parliament for use in its deliberations.

The Performance of the Office of the Auditor General

The Committee deeply values the contribution made by the Auditor General and his Office to the work of Parliament and the ability of the Office to support government accountability at the federal level. The Committee's appreciation is supported and enhanced by the information contained in the *Office of the Auditor General's Performance Report* for the period ending 31 March 1999. Among its many achievements, the Office has accomplished the following during this period:

- A favourable government response, in the 1999 Budget, to some of the issues raised in the Auditor General's observations on the government's financial statements for 1997–98, including recommendations on such issues as accounting for contingent liabilities for Aboriginal claims, the move to full accrual accounting, and the Debt Servicing and Reduction Account;

- A reduction in the number of hours needed to conduct financial audits of Crown corporations and other entities, and a reduction in the costs of those audits. Although the reductions were not as deep as expected, they were significant none-the-less;

- A reduction in the average cost of value-for-money audits that met expectations and came as a result of better attention to planning and managing the costs, timeliness and results of audits;

- Full implementation or satisfactory progress regarding 57 percent of the Office's recommendations and observations contained in its Reports over a five-year period from 1993 to 1997; and

- The identification of opportunities to reduce costs or maximize resources as a consequence of value-for-money audits. An example cited concerned inventory reductions totalling more that $480 million resulting in a potential annual saving of $100 million by four departments following a 1996 audit.

These are but a few of the Office's many important achievements.

Ideally, Performance Reports should give special attention to areas in which performance did not achieve expectations. The Auditor General's Performance Report touched on a few of these areas, for example:

- Responses from a survey of Members of Parliament showed that Parliament's awareness of the Office's work in the area of the environment and sustainable development could be improved; and

- A lower than expected reduction in the number of hours needed for financial audits, although the Committee views favourably the progress that has been made.

The emphasis in this Performance Report is weighted in favour of the achievements of the Office and it is assumed that this is an accurate reflection of the results of its work. However, the Committee believes that in order to be truly useful, Performance Reports must also display candour about problems and challenges facing departments and agencies. This gives Parliament the opportunity to develop a better appreciation of the environment in which departments and agencies operate. Rather than giving Parliament a chance to assign blame, candour regarding problems holds forth the possibility of recognizing constructive solutions. With this in mind, the Committee recommends:

That in its future Performance Reports, the Office of the Auditor General of Canada clearly indicate those areas in which its performance and achievements have fallen short of expectations. Explanations for the cause of such shortcomings and a discussion of action plans to address the problem areas identified should be included.

In his statements to the Committee, the Auditor General recognized that while his Office makes many recommendations, it is incumbent on others to implement them. Thus the credit for subsequent outcomes must be shared. Conversely, this should also apply to instances in which undesired outcomes have resulted. In its Performance Report for the period ending 31 March 1998, the Office included a short section on unintended results. This section was absent from this recent report, perhaps because the Office was unaware of any unintended consequences. Nevertheless, the Committee believes that this is an important contribution towards understanding performance and therefore recommends:

That in its future Performance Reports, the Office of the Auditor General should include a discussion of unintended results, where appropriate. In the absence of being aware of any unintended results, a clear statement to that effect should be provided.

The Committee was encouraged to learn that over the five-year period from 1993 to 1997, 57 percent of the Auditor General's recommendations have been either fully implemented or there has been satisfactory progress. This testifies to the ability of departments and agencies to receive and respond to the Auditor General's advice as well as the ability of his Office to identify problem areas accurately and to provide workable solutions. The Committee is concerned, however, about the lack of progress on the remaining 43% of recommendations and like the Auditor General would like to see a higher rate of implementation. The Committee is anxious to assist in efforts to increase implementation and therefore recommends:

That in future, Performance Reports of the Office of the Auditor General provide additional detail, in table format, concerning those recommendations and observations whose implementation is below expectation. A list of departments and agencies that have demonstrated low rates of implementation, and the major areas in which implementation has been problematic should be included.

Performance Objectives and Indicators

The Auditor General presents the objectives and indicators for his Office in Exhibits 2 and 3 of his Performance Report. Exhibit 2 provides a succinct description of the Office's key results commitments. Exhibit 3 elaborates on these commitments and organizes them according to the Office's five business line components.

The Committee finds that these goals are in conformity with the Office's legislative mandate and the expectations of the Office's principal stakeholder, Parliament. The indicators that are used to measure the achievement of the goals also appear appropriate and unambiguous.

The process of selecting and articulating goals and indicators is of vital importance because it influences the clarity and relevance of the results that are reported. In volume I of a document entitled *Managing for Results 1999*, Treasury Board reports that "an increasing number of departments is … undertaking external consultations to ensure that results and indicators are articulated in a way that is meaningful to Canadians." [3] The Office of the Auditor General of Canada serves Parliament and the Committee appreciates hearing from the Auditor General that his Office takes Parliament's input into consideration when establishing its upcoming priorities. Indeed, the Office has shown great sensitivity to Parliament's wishes in light of its need to operate in an independent manner. Furthermore, as the Auditor General noted, a review of the Office's Plans and Priorities document gives this Committee an opportunity to discuss the Office's objectives and the means provided to determine their attainment. Since goals and indicators are subject to ongoing adjustment, the Committee recommends:

That the Office of the Auditor General continue to consult parliamentarians on an ongoing basis when it is in the process of adjusting and refining its goals and indicators. Particular attention should be paid to the need to ensure that these goals and indicators address the needs of Parliament.

In his opening statement, the Auditor General told the Committee that other legislative audit offices in Canada and around the world are confronting the challenge of establishing performance expectations and reporting on key achievements. The Committee believes that it would be beneficial for the Office to work with its counterparts elsewhere in meeting this challenge and thus recommends:

That the Office of the Auditor General consult closely with legislative audit offices in other jurisdictions within Canada and elsewhere in order to meet the special challenges they confront in setting expectations and reporting results.

The Committee notes that the Office is already working with its counterparts in the provinces in order to develop a common set of performance indicators for comparative purposes. The Committee fully supports this initiative and therefore recommends:

That the Office of the Auditor General continue to work with other legislative audit offices in Canada in order to develop a common set of performance indicators to be used for comparative purposes; and

That the Office of the Auditor General include a general discussion on the progress towards achieving a set of comparative indicators in its future Performance Reports.

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[3] Treasury Board of Canada, Secretariat, *Managing for Results 1999*, volume I, p. 2.

The Presentation of Performance Information

The Committee notes that the Office of the Auditor General continues to make adjustments and refinements in the way that it presents information in its Performance Report. For each of its principal business lines, the Office is now including information on its commitments that is organized according to the services it provided, the indicators used to determine achievement, and what was actually achieved. These and other formatting changes represent welcome improvements. The Committee wishes to encourage the efforts of the Office in this regard and therefore recommends:

That the Office of the Auditor General continue, in consultation where appropriate with the Standing Committee on Public Accounts, to make refinements to the manner in which information is presented in its annual Performance Report, paying particular attention to the need for maintaining a high level of continuity with its Performance Reports of preceding years and to facilitating the use of Performance Reports in conjunction with the Office's Plans and Priorities documents; and

That when it makes changes to its annual Performance Report regarding either formatting, objectives, or indicators, the Office of the Auditor General also include a brief explanation for the changes for the benefit of the readers.

Furthermore, in the interests of facilitating ease of use of the Office's annual Performance Report, the Committee recommends:

That the Office of the Auditor General include an index of key issues and topics at the end of its annual Performance Report.

Lastly, as noted above, the Office's Performance Reports now contain tables that provide information on results commitments that is organized according to services the Office provided, how it measured achievement and what it actually achieved. Although this represents a step forward, there is always room for improvement. The Committee accordingly recommends:

That the Office of the Auditor General improve the organization of its summary information on results commitments by adding a section describing its performance expectations prior to the section listing performance indicators and a section describing, when appropriate, where the Office fell short of anticipated performance and results.

Conclusion

The Office of the Auditor General has for many years played a valuable and unique role in supporting the work of Parliament and fostering improvements to the management and delivery of government programs and services. Indeed, the work of the Office and the integrity with which it conducts its affairs should serve as a model for other public sector entities. The Committee is pleased to note that this tradition and example continue to be upheld by the current Auditor General, who has set an exemplary standard for leadership and probity, and by his staff.

The Committee's review of the *Performance Report for the Office of the Auditor General of Canada* for the period ending 31 March 1999 has convinced the Committee of several things. The Office is working well and achieving the demanding goals that it, as well as Parliament, has set. The activities of the Office are making an important difference in terms of a Parliament that is well informed and public management at the federal level that is improving. Satisfaction with the Office's achievements, however, has not blunted its determination to find ways of doing even better. It is in this spirit that the Committee has contributed its recommendations that have been made in recognition that service in the name of the public good in democratic societies requires constant scrutiny and evaluation.

In closing, the Committee notes that the Office of the Auditor General has been re-elected as the External Auditor of UNESCO after completion of an initial six-year mandate. This constitutes a significant vote of confidence in the abilities of the Office and is an achievement that ought to be source of pride for Parliament and indeed all Canadians.

The Committee requests that the Auditor General submit to the Committee a comprehensive response to this Report in the fall of 2000.

A copy of the relevant *Minutes of Proceedings* (*Meetings Nos. 5, 10, 15*) is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 22 March 2000

FINANCIAL INFORMATION STRATEGY: DEPARTMENTAL READINESS

In accordance with Standing Order 108(3)*(e)*, the Standing Committee on Public Accounts has the honour to present its

SEVENTH REPORT

After considering Chapter 21 of the November 1999 *Report of the Auditor General of Canada*, entitled "Financial Information Strategy: Departmental Readiness", the Committee has agreed to report as follows.

Introduction

For over 35 years, commissions, studies and reports have unanimously concluded that the federal government's accounting practices need to be modernised and improved since its financial systems have not linked between operational and financial data in a way that could establish program and other costs.

The purpose of the Financial Information Strategy (FIS) is to reform federal government accounting practices and financial systems by adopting full accrual accounting.

Approved in 1989, the FIS acquired momentum in 1995 when the Finance Minister announced the government's intention to adopt full accrual accounting. The government intends to implement the FIS by April 1, 2001.

In first examining the FIS in Chapter 18 of the September 1998 *Report*, the Auditor General noted broader related issues, including FIS project management by the Treasury Board Secretariat (TBS), the development of FIS central systems, and the need to move to full accrual accounting for parliamentary appropriations (accrual appropriations).

Chapter 21 of the November 1999 *Report* is the second in a series of chapters on the FIS, focusing on departmental preparedness for FIS implementation and FIS project management by the TBS.

Given the importance of accounting practices and financial systems in supporting decision-making and improving accountability to Parliament, the Committee decided to consider Chapter 21 of the November 1999 *Report*, and met on February 10, 2000 to do so. Denis Desautels, Auditor General of Canada; Ron Thompson, Assistant Auditor General; and Eric Anttila, Principal, Audit Operations, appeared as witnesses for the Office of the Auditor General (OAG). Richard Neville, Deputy Comptroller General; Jim Libbey, Senior Director, FIS Project; and John Morgan, Senior Director, Financial Management and Accounting Policy, appeared as witnesses for the TBS.

This report contains the Committee's observations and recommendations resulting from that meeting.

Observations and Recommendations

Given the rapid approach of the FIS target date, the Auditor General endeavoured to communicate to the Committee a sense of urgency about the FIS.

The Auditor General noted that the objectives of the FIS, which he fully supported, were to adopt full accrual accounting and new financial systems government-wide, and to integrate into day-to-day management the more businesslike financial information the FIS will provide.

Under the FIS, the Auditor General said, departments and agencies would be responsible for keeping their own accounts; the quality of the government's overall financial statements would greatly depend on the quality of the data produced by these entities; shortcomings in their systems affecting the accuracy of the *Public Accounts of Canada* would be embarrassing; and, in order to avoid this risk, the government must take appropriate steps, including proper contingency planning as new financial systems were brought on-line.

The FIS had been under way for some time, added the Auditor General, and all possible efforts must be exerted to implement it properly and on time. The Auditor General said he was worried about slow progress on the FIS; encouraged that during the previous year the government had set up the central systems to accept departmental FIS data; and pleased with the disciplined FIS project management by Public Works and Government Services Canada (PWGSC) and its main partners in implementing the central systems.

However, the Auditor General noted that some departments and agencies were just beginning FIS implementation.

Although most had set up new financial systems, much remained to be done to prepare these systems for the FIS and to adopt full accrual accounting.

The April 1, 2001 target date exerted considerable pressure on these departments and agencies and the central agencies; and that these entities must also ensure that they had the financial expertise required to carry out their increased FIS responsibilities properly.

The Auditor General noted that his observations on the FIS were based on audit work concluded in August 1999, adding that he believed that further positive action had been taken since.

The Auditor General pointed out that the move to accrual appropriations was still a major element of FIS implementation, adding that, under the FIS, using the same basis for accounting and for appropriations, including all major accountability documents and processes, would reduce or eliminate the need to reconcile two sets of records, one for day-to-day management and reporting and the other for accountability to Parliament. He stated that various accrual accounting methods could be used for appropriations, but stressed that these methods must be discussed as soon as possible.

According to the Auditor General, successful FIS implementation would go a long way toward providing managers with the financial data they need to provide public services to Canadians, and underpin the government's new management philosophy of disclosing all resources managed and consumed in achieving program objectives. He added that the FIS could be vital to related initiatives such as comptrollership, performance management, results management, and even managers' compensation.

The Auditor General said he believed that all was in readiness for successful FIS implementation, noting that the time was right for providing government Ministers, officials and managers the financial data they needed, and concluding that work must continue until FIS implementation was completed.

In his testimony before the Committee, Mr. Richard Neville provided an update on the FIS, noting, firstly, that major revised accounting policies had been issued some time ago; secondly, that departments and agencies were fully occupied in applying general policies to their specific entities and financial systems; thirdly, that the move to accrual appropriations was progressing more slowly than anticipated, and that the Treasury Board Secretariat was just about to send out a consultation paper to stakeholders; and, fourthly, that he was committed to providing

members of the financial community with everything they needed to use the FIS by April 1, 2001. Mr. Neville added that managers would be familiar with the FIS and able to implement it by the target year of 2001-02.

Mr. Neville told the Committee that departments and agencies had thus far set up 17 FIS project teams, which considered subjects such as accounting policies, parliamentary appropriations, integration of financial and non-financial performance data, managers' commitment to the FIS, communication, and management of change.

The representatives met monthly in the FIS Forum to consider questions and options raised by member teams, share best practices and lessons learned, and make recommendations to Neville's central team.

Mr. Neville told the Committee that 14 entities were successfully connected to the central systems when the new PWGSC central systems were set up on April 1, 1999; that he planned to connect 23 more entities by April 1, 2000; and that some 60 entities would have to be connected by the April 1, 2001 deadline. He added that PWGSC was working hard to ensure that the project was well managed.

Mr. Neville admitted that much remained to be done by departments and agencies in ensuring that all their financial systems were FIS-compliant by April 1, 2001. He added that one important aspect of the FIS was these entities' obligation to adopt one of seven approved financial systems and to be part of a cluster with other entities sharing that system. Mr. Neville said that the clusters were largely completed and had reduced the number of financial systems used by the government from over 30 in 1996 to seven at present. Mr. Neville added that he thought the work done on departmental financial systems would be completed on time.

Mr. Neville listed three risks being managed government-wide:

- the fact that departmental preparedness was challenging;
- the significant workload involved in connecting some 60 entities to the central systems by April 1, 2001; and
- the fact that government employees had much to do if they were to be prepared for FIS implementation by April 1, 2001.

Mr. Neville told the Committee that, despite the challenges remaining, there were at present no risks that would jeopardize the FIS implementation target date.

Mr. Neville said that there had been much discussions about the cost of implementing the FIS and that he would provide further details on this point. He added that the TBS would explore FIS repercussions in order to assist managers and be able to monitor these repercussions.

Mr. Neville concluded by stating that, despite the risks, he believed the FIS would be implemented by April 1, 2001.

Moving to Accrual Appropriations

One objective of the FIS is to move to accrual appropriations. The Committee's previous report recommended that the government complete its consultations with departments and agencies as soon as possible and determine how best to move to accrual appropriations.

At its February 10, 2000 meeting, the Committee was very much concerned to learn that these consultations had not yet been completed.

Questioned on this point, Mr. Neville admitted that the consultation process was progressing much more slowly than anticipated. He told the Committee that he had only just signed the consultation paper to be sent out shortly to all stakeholders, and added that he had asked these entities to respond to by March 10, 2000 and would make his own recommendations to the government in two or three months. He pointed out that, ultimately, the federal government was responsible for deciding whether to move to accrual appropriations.

The Committee asked to be informed of the Treasury Board Secretariat final recommendation on moving to accrual appropriations. Mr. Neville said that he would share with the Committee the action plan developed in order to move the process along.

That, as soon as possible, the Treasury Board Secretariat complete its consultations with departments and agencies on moving to accrual appropriations; and

Once the consultations are completed, that the Treasury Board Secretariat inform Parliament and the Public Accounts Committee in writing of its final decision and recommendations to the government on moving to accrual appropriations.

Reporting Progress in FIS Implementation to Parliament

The Committee was very much concerned by the scarcity of public information on progress in FIS implementation, wondering how many departments and agencies were participating, what progress FIS implementation had made in each one, and what risks were associated with FIS implementation. The Committee asked the witnesses from the TBS whether they were considering taking action to offset this scarcity of public information.

Mr. Neville took this opportunity to present to the Committee a document entitled "FIS Plan and Status Report", which each department and agency was to complete before receiving additional financial assistance or support from the TBS.

The Committee asked to receive monthly information on progress in the government-wide FIS implementation.

In response, Mr. Neville promised to consider the possibility of producing a summary statistical indicator, something like a barometer, that would be adjusted monthly and would indicate progress in the government-wide implementation of the FIS.

The Committee also asked whether the TBS could publish this information on the FIS Internet site, which Mr. Neville committed to do.

That the Treasury Board Secretariat develop statistical indicators, to be updated monthly, measuring progress in Financial Information Strategy (FIS) implementation department by department.

That the Treasury Board Secretariat begin publishing these indicators on the Financial Information Strategy (FIS) Internet site by May 1st, 2000.

Departmental Commitment

The Committee expressed concern about what it saw as a lack of commitment to and participation in FIS by departmental senior executives and program managers.

The Auditor General said that he thought some departments attached little importance to the FIS, not out of lack of interest or bad faith, but because they had many priorities, among which administrative matters sometimes took second place. He added that, if the FIS was to be given high priority, Deputy Ministers would have to be convinced that it would improve overall departmental management, and that convincing Deputy Ministers and program managers of the benefits of the FIS would still require conviction and promotion.

The Auditor General emphasized that, with the year 2000 changeover now a thing of the past, Deputy Ministers could pay more attention to FIS implementation and take concrete action to give it high priority by making public commitments in their *Reports on Plans and Priorities*.

That the Treasury Board Secretariat encourage all departments and their Deputy Ministers to include in their *Reports on Plans and Priorities* a status report on the Financial Information Strategy implementation and a commitment to Canadians that they will give high priority to Financial Information Strategy.

Connecting Departments and Agencies to Central Systems

The Committee expressed some worry about the workload involved in connecting new departmental systems to the central systems. It was noted that 14 departments and agencies were connected on April 1, 1999; an anticipated 23 more entities would be connected on April 1, 2000; and nearly 60 entities would have to be connected by the target date of April 1, 2001. Apprehension was expressed that this significant workload might jeopardize timely FIS implementation as well as connection quality.

Mr. Neville admitted that the schedule for connecting departmental systems was very ambitious, but emphasized that to date no major problem had been identified that might jeopardize it.

Mr. Neville added that the 14 entities that had been connected on April 1, 1999 made up the two largest clusters among the seven shared financial systems; that the 23 entities to be connected by April 1, 2000 would make up two other clusters; and that these four groupings accounted for 60% of all shared financial systems.

Mr. Neville pointed out that the third wave of connections, to be completed by April 1, 2001, would be less work than the previous ones, since most entities in this third wave used shared financial systems that had already been converted. He added he was closely following departments' and agencies' progress, in co-operation with PWGSC, and anticipated no major problems with the third wave of connections.

That the Treasury Board Secretariat prepare a status report on connecting departmental systems to the central systems, identifying the number of successful connections, the number of connections to be completed, and risk factors that could jeopardize the Financial Information Strategy implementation.

That the Treasury Board Secretariat submit this connection status report to Parliament and the Committee by June 1st of each year until the Financial Information Strategy implementation is completed.

That the Treasury Board Secretariat immediately inform Parliament and the Public Accounts Committee of any risk that could jeopardize the timely connection of departments and agencies to the central systems.

The FIS and the Department of National Defence (DND)

Accounting for military assets can cause problems in government financial statements that use full accrual accounting. In wartime, acquisition or destruction of military assets such as equipment, buildings, ships and

airplanes and other armour significantly affects the government's financial statements, especially the Statement of Assets and Liabilities not to mention long term costs of caring for and rehabilitation of the wounded. At the Committee's February 10, 2000 meeting, Department of National Defence participation in the FIS was discussed. Mr. Neville pointed out the Department of National Defence decision to adopt full accrual accounting and to capitalize its military assets. The Committee hailed this decision by Department of National Defence.

Conclusion

This report has considered departmental preparedness for FIS implementation. The Committee recognizes the vast effort and progress made to date by all stakeholders, but notes that much remains to be done, with little more than a year to go before the April 1, 2001 target date. The Committee's main concern is the slow pace of consultations on moving to accrual appropriations. The government must take a clear position on this issue and enforce its position promptly; otherwise vagueness may jeopardize FIS implementation overall. The Committee considers that moving to accrual appropriations is the best way to make the new accounting practices part of departmental management and decision-making processes.

The workload is daunting, and the deadline is tight. All stakeholders must recognize the urgency of the situation and maintain momentum, since there is still a high risk of incomplete FIS implementation. The Committee is convinced that FIS implementation is important in improving government decision-making, accountability, and organizational performance. The FIS opportunity must be taken; otherwise the repercussions will be far-reaching.

In accordance with Standing Order 109, the Committee requests a comprehensive government response to this report.

A copy of the relevant *Minutes of Proceedings* (*Meetings nos 11 and 17*) is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 17 May 2000

The Standing Committee on Public Accounts has the honour to present its

EIGHTH REPORT

In accordance with its Order of Reference of Tuesday, February 29, 2000 your Committee has considered Votes 20 and 25 under FINANCE of the Main Estimates for the fiscal year ending March 31, 2001 and reports the same.

A copy of the relevant *Minutes of Proceedings* (*Meeting No. 22*) is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 17 May 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

NINTH REPORT

The Standing Committee on Public Accounts has considered Chapters 14 and 15 of the September 1999 Report of the Auditor General of Canada (*National Health Surveillance: Diseases and Injuries, and Management of a Food-Borne Disease Outbreak)* and the Committee has agreed to report the following:

Introduction

The increasing mobility of persons and goods across national boundaries has greatly increased the danger of worldwide transmission of communicable diseases. In cases of contamination, the health and safety of all Canadians requires that the sources be quickly identified and isolated in order to implement effective corrective measures.

Over the years, Canada has developed a national health surveillance system that is designed to monitor the incidence of injuries and communicable diseases that can jeopardise the health and safety of Canadians.

The health of Canadians is of utmost importance. Accordingly the Committee decided to examine the results an audit of Canada's national health surveillance system and a second audit focused on the way in which the outbreak of a food-borne disease was handled.

On March 2, 2000, the Committee met to the Auditor General of Canada, Mr. L. Denis Desautels, FCA, Ms. Maria Barrados Assistant Auditor General and Mr. Ronnie Campbell, Principal, Audit Operations Branch of the Office of the Auditor General. Mr. Robert S. Lafleur, Senior Assistant Deputy Minister, Corporate Services Branch, Dr. Joe Losos, Assistant Deputy Minister, Health Protection Branch, and Mr. Michael Shannon, Executive Director, Animal Products Directorate, Health Canada. Mr. Ron Doering, President, Dr. Brian Evans, Executive Director, Animal Products Directorate and Mr. Robert Carberry, Director, Plant Health and Production Division, appeared on behalf of the Canadian Food Inspection Agency.

Observations And Recommendations

Canada's national health surveillance system must be as efficient and effective as possible. This is particularly so at a time when travel and globalization are exposing Canadians to new and sometimes quite virulent threats to their health. Anyone seeking assurance, however, that the system currently in place is up to this challenge would be dismayed by the audit results reviewed by the Committee.

The audit revealed a series of structural problems in the health surveillance system. The federal, provincial, and territorial governments are all involved to varying degrees in delivering health services to Canadians, yet there is, in the Auditor General's words:

> No specific legislation, policy, or agreement that links separate components of public health functions at the various levels of government.

As a consequence, the roles and responsibilities of those involved in national health surveillance and disease control were not clearly specified or understood.

Key surveillance systems used by Health Canada to monitor communicable diseases such as influenza, AIDS, tuberculosis, and food-borne disease were not working as intended. Data being collected was not always accurate, comparable, or timely. There were no formal arrangements with the provinces and territories covering common standards and procedures for collecting and exchanging data. These weaknesses in data collection resulted in delays in disseminating surveillance information. Based on his observations, the Auditor General reported to Parliament that:

> Taken together, the weaknesses [he] observed have clear national implications for public health. First, they compromise Health Canada's ability to detect, anticipate, prevent and control health risks associated with outbreaks of communicable diseases. Secondly, they compromise their ability to plan, carry out and evaluate public health programs and other programs that deal with the causes and treatment of diseases.

The Committee views these shortcomings very seriously and is relieved to learn that Health Canada already has several corrective initiatives in place. Many of these were noted by the Auditor General in his Report.

The Department's work with provincial governments in building an integrated national surveillance network for public health surveillance is of particular note. Extensive consultations with stakeholders have been completed, a conference on a proposed national framework was held, a proposal was released, and in June 1999 the Department issued a report with recommendations. Federal, provincial, and territorial ministers of health are considering this report.

The Auditor General commends these efforts and writes that the proposal "represents a significant step forward." He continues that an integrated network "would do much to address a number of weaknesses" identified by his audit. (14.95) He adds, however, "it is unclear when such an integrated national health surveillance network would be implemented, as there are no planned timeframes or action plans for implementation."

The Committee also commends this effort and is anxious to see its timely implementation. It therefore recommends:

> **That Health Canada report on the implementation of a national health surveillance network to Parliament on a regular basis. Such reporting should consist of references to the Department's plans including timetables and the financial, technological, and human resources it will devote to this effort, in its annual Report on Plans and Priorities. The Department's annual Performance Report should discuss the progress that has been made.**

Furthermore, in full anticipation that this network will be established, the Committee recommends:

> **That once the implementation of an integrated national health surveillance network has taken place, Health Canada continue to inform Parliament of the results and outcomes produced in its annual Performance Reports.**

The Committee also notes that Health Canada's Laboratory Centre for Disease Control (LCDC) had not used the tools available to it to better manage its surveillance activities. LCDC had no formal plans to evaluate its surveillance systems. It had not completed a framework for measuring its performance. Only limited use had been made of risk assessments to identify diseases as candidates for surveillance. The Committee believes that the application of these tools, which are all within LCDC's control, would greatly improve surveillance and recommends:

> **That Health Canada's Laboratory Centre for Disease Control begin to evaluate its surveillance systems at regular intervals, complete and implement a framework for measuring the performance of these systems, and use risk assessment in the identification of diseases for surveillance; and**

That Health Canada reports progress in the application of these tools in its annual Performance Report, beginning with the Report for the period ending 31 March 2001.

Health Canada displayed a clear willingness to act on all of the Auditor General's recommendations. In subsequent correspondence with the Committee, the Department has provided an outline of the actions it is taking to address those recommendations. The Committee appreciates this positive reaction and recommends:

That Health Canada include a reference to its progress in implementing the recommendations contained in Chapter 14 of the 1999 Report of the Auditor General of Canada in its annual Performance Report, beginning with the Report for the period ending 31 March 2000.

Chapter 15 of the Auditor General's 1999 Report – *Management of a Food-Borne Disease Outbreak* – clearly illustrates the problems that can result from gaps in the national health surveillance system. This chapter contained the results of an audit of the way the Canadian Food Inspection Agency, Health Canada and provincial agencies handled one of the largest food-borne disease outbreaks in Canada.

Some of the important aspects of the response worked well, but others did not. The audit found that there were delays in the exchange of information to identify the scope of the outbreak. There was a less than full co-operation among the agencies in responding to the outbreak and the agencies and departments involved did not maintain appropriate records on the outbreak.

In his opening statements, the President of the Canadian Food Inspection Agency (CFIA) informed the Committee that:

- Food safety is the primary concern of the CFIA;
- CFIA welcomes and supports the Auditor General's recommendations related to improving the overall food emergency response system; and
- CFIA is a continuous learning organisation. It agreed with the Auditor General's recommendations and is working towards their full implementation.

Mr. Doering then enumerated a series of initiatives, either completed or currently being implemented:

- In 1999, Health Canada completed a review of CFIA's Food Emergency Response System. In addition, CFIA's own Corporate Audit and Review Directorate developed an action plan to address some of the issues raised in the review. These reviews, together with ongoing efforts to clarify and update working relationships and the underlying agreements with Health Canada and the provinces/territories, have resulted in significant improvements to the management framework, operational processes, and the basis for co-ordination for food emergency management.
- CFIA is currently working with Health Canada and provincial and territorial counterparts to finalise a Food-Borne Illness Response Protocol, which is designed to improve the co-ordination efforts and response to food emergencies to the food safety needs of consumers.
- CFIA has made significant changes to its management of food safety emergencies, including, among others, the creation of the Office of Food Safety Recall (OFSR) in July 1999. The OFSR has responsibility for decision making for all emergency management.

As a final remark, Mr. Doering stated that CFIA is committed to continuous improvement of its food emergency response system and will continue to work in collaboration with all levels of governments. Although the

Committee welcomes the Agency's determination to put in place corrective measures, a number of concerns remain outstanding.

During the meeting, some concerns were raised about the nature of the Agency's responsibilities and its relationships with other entities. Some Members perceived a potential for confusion arising from the Agency's relationship with two departments, Health Canada and Agriculture and Agrifood Canada. Other concerns were expressed about the appropriate level of ministerial involvement in the day-to-day affairs of the Agency.

In Chapter 12 of his September 1998 Report (*The Creation of the Canadian Food Inspection Agency*) the Auditor General described the Agency's accountability regime. He observed that while the Agency's enabling legislation provides a check and balance for shared responsibilities between it, Health Canada and Agriculture and Agrifood Canada, it does not describe roles and responsibilities in much detail. Some additional detail was added in a memorandum of understanding signed between Health Canada and the Agency and the Auditor General noted that:

> It [was] understood that roles and responsibilities [would] be reviewed further as the accountability framework continues to be used.

At that time, the Auditor General indicated that the clarity and effectiveness of these arrangements in the accountability framework still needed to be tested as new events occur over time.

In some respects, the food-borne disease outbreak provided the test of the accountability relationships referred to by the Auditor General in his 1998 Report. The Committee believes that the results of this audit suggest that the Agency's accountability relationships could benefit from further clarification. The Agency has been in existence for three years now; this might be an appropriate opportunity to examine its enabling legislation in light of the experience that has been gained. The Committee therefore recommends:

> **That a Standing Committee of the House of Commons be given the task of reviewing the *Canadian Food Inspection Agency Act*, paying particular attention to the clarity and effectiveness of the Agency's accountability framework; and**
>
> **That the Canadian Food Inspection Agency establish specific policies and procedures to resolve disputes and disagreements that might arise among parties and report the progress of this initiative in its annual Performance Report for the period ending 31 March 2001.**

The Canadian Food Inspection Agency (CFIA) is responsible for the enforcement actions in food related emergencies and has a lead role in co-ordination of emergency response and investigation of food-borne illness outbreak. Given this, the Committee was interested in understanding the reasons behind the Agency's decision to drop the leadership role in the inspection of a food processing plant suspected of being a source of *Salmonella* contamination.

The audit noted that after a number of inspections of food processing plants, nothing could be found that would allow a conclusion to be drawn as to the cause of the contamination. Concerns remained about the water quality at one of the food processing plants.

In paragraph 15.57 of his Report, the Auditor General indicated that CFIA officials told his Office that:

> Senior management decided, upon reviewing the file, that based on their analysis of previous inspections there was no further need for the Agency to inspect the plant. The Agency decided that it would no longer lead the inspection of the plant. In effect, it changed its role to one of assisting Health Canada in determining the cause of contamination, rather than maintaining a lead role in the investigation.

However, Health Canada, provincial and local health officials felt that there were sufficient reasons to have the plant re-inspected and decided to carry it through. Jurisdictional considerations dictated that a local health officer take the lead in the inspection. The ensuing confusion over the leadership role delayed the inspection by one day.

Dr. Evans indicated that the Agency's decision not to lead the inspection was based on jurisdictional considerations. The Agency was leading an investigation into Salmonella contamination but what the inspection uncovered was a coliform bacteria contamination of well water that was not involved in the plant's food transformation processes. Given the public health implication to the staff working in the plant at the time, the Agency felt it was appropriate for the Ministry of Health of Ontario to take over the lead role in the investigation to identify the source of contamination. He told the Committee that:

> The issue was we (CFIA) felt that there was no need to do further inspection of processing controls, which is why we had the lead, because that is our inspection and technical competency mandate. So we felt the processing control piece did not need to be revisited, having being investigated at four different previous occasions.

The Agency was asked whether it felt the inspection was necessary. Dr. Evans replied that the inspection was required to deal with the coliform bacteria counts, not dealing with process controls, where we had the lead, and therefore the jurisdictional lead, we felt, should transfer to Ministry of Health in Ontario because, again, they were now starting to investigate a public health risk not related to cheeses, not related to food-borne illnesses.

He then testified that: "on the subsequent investigation, when the seventh team did go in, they were not able to duplicate. *The results were negative on the seventh investigation.*"(Emphasis added) When questioned about the use of contaminated well water in the food processing plant, Dr. Evans replied that: " the well water was used only in the plant in terms of washing of surfaces. *But it's an enclosed system and there's no opportunity for that water to engage or come into contact with the cheese process.*"(Emphasis added).

In his Report, however, the Auditor General wrote that:

> The inspection revealed contamination in the plant's water supply and identified several other opportunities for contamination of cheese. (Emphasis added) The team concluded that the water at the time of the inspection was not potable. Although the water was mainly used for cleaning, nevertheless the plant was ordered by local public health and CFIA officials to remain closed until a water disinfection system could be installed. However, the investigation could not determine the cause of the contamination of the cheese.

It is the Committee's belief that the CFIA's decision to yield the leadership role in the inspection resulted in undue confusion and delay in determining the origin of the food-borne contamination. The Committee welcomed the news that in 1999 CFIA updated the agreement with its partners on roles and responsibilities in addressing food emergency responses and that it has set up working procedures in the "Food Borne Illness Outbreak Response Protocol". Accordingly, the Committee recommends:

> **That the Canadian Food Inspection Agency provide Parliament and the House of Commons Standing Committee on Public Accounts with copies of the Food-Borne Illness Outbreak Response Protocol, and that the Agency inform Parliament of the progress of this initiative though its annual Performance Reports, beginning with the Report for the period ending 31 March 2001.**

Furthermore, the Committee recommends:

> **That in all future investigations, the Canadian Food Inspection Agency maintain a senior, if not a lead role, and that it consult with, and obtain agreement from, all concerned parties before changing its roles and responsibilities when carrying out an investigation; and**

That, in the event that a change in roles and responsibilities is warranted, the Canadian Food Inspection Agency submit to Parliament all relevant documents, records of decisions and key meetings between all concerned parties involved in the consultations and decision.

The Committee was concerned by CFIA's lack of participation and transparency in the post-outbreak review of the *Salmonella Entiriditis* outbreak. Post-outbreak reviews are necessary to ensure that lessons are learned and errors avoided.

Dr. Evan acknowledged that the Agency "did not have a formal post-mortem in the sense that was recommended by the Auditor General," but that a formal process has now been implemented and carried out in every subsequent investigation.

The Committee welcomes this development and urges the Agency to maintain its commitment to proper record keeping and reporting to Parliament. The Committee therefore recommends:

That Canadian Food Inspection Agency report on the implementation of the Auditor General's recommendations in its annual Report on Plans and Priorities. Such reporting should consist of references to the Agency's plans including timetables and resources devoted to this effort. The Agency should also discuss the progress that has been achieved by these initiatives in its annual Performance Report to Parliament beginning with the Report for the period ending 31 March 2001.

Conclusion

The Committee is quite concerned by the Auditor General's findings on the national health surveillance system and the management of food inspections. The shortcomings identified by the audits are very worrisome given the potentially serious consequences to Canadians.

A well functioning national health monitoring system requires the sharing of relevant and timely information and the efficient participation and co-operation of all orders of government and private organisations. It is therefore imperative that each participant has a clear idea of their respective roles and responsibilities in this system.

The Committee acknowledges both the Department's and the Agency's efforts to address the structural problems in the health monitoring system but much remains to be done. All outstanding issues must be addressed without further delay if the health and safety of all Canadians is to be adequately protected.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 16 and 23)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Wednesday, 17 May 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

TENTH REPORT

The Standing Committee on Public Accounts has considered Chapter 18 (*Public Works and Government Services Canada - Alternative Forms of Delivery - Contracting for property management services)* and Chapter 27 (*National Defence: Alternative Service Delivery*) of the September and November 1999 Reports of the Auditor General Of Canada And The Committee Has Agreed To Report The Following:

Introduction

Over the past decade, the federal government has had to reduce expenditures as a consequence of unsustainable annual deficits and a growing debt load. At the same time, the government has had to continue fulfilling its national and international obligations and responsibilities, some of which have intensified in the declining years of the twentieth century. These factors have prompted changes to the structure and operation of government that are unprecedented in their scope, intensity, diversity, and rapidity.

In his Reports to the House of Commons for 1999, the Auditor General of Canada has brought an important aspect of this change to Parliament's attention: the federal government's increasing use of non-traditional means of delivering – and sometimes designing – programs and services. Chapter 5 of his April Report – *Collaborative Arrangements: Issues for the Federal Government* – established fundamental concepts and principles that should be taken into account when approaching this change. Subsequent Reports in September and November moved from overall concepts to specific forms of non-traditional delivery and to examples that illustrate the strengths and weaknesses of the effort to date. Chapters 18 and 27 examine one such form of non-traditional delivery: Alternative Service Delivery (ASD) which is categorized under the broader heading of Alternative Forms of Delivery (AFD). These terms are used by government to describe ways of providing and obtaining services outside of government itself. Thus, what government once did by itself, it now does with others or lets others do entirely.

The Committee strongly believes new ways of delivering government services represent an important opportunity. It believes even more strongly that Parliament needs to be informed of these changes. While the approaches are new, two constants remain: the objectives and the source of the funding consumed in attaining them, both of which are public. These constants require Parliament to exercise its obligations to Canadians to scrutinize proposed spending before it grants approval and to hold Government to account. Furthermore, it is vital that as new mechanisms -- many of them experimental – are adopted by government, flawed elements be abandoned and replaced quickly. This necessitates constant departmental oversight and adjustment – and regular reporting to Parliament on the results.

With these factors in mind, the Committee decided to review the results of two audits whose subject was alternative forms of delivering services. The first examined Public Works and Government Services Canada's contracting activities for property management services (Chapter 18). The second focused on the Department of National Defence's use of Alternative Service Delivery (ASD) to obtain non-core services (Chapter 27).

Accordingly, the Committee met on 17 February 2000 with the Auditor General of Canada, Mr. L. Denis Desautels, FCA, Mr. Peter Kasurak, Principal, Audit Operations Branch, and Mr. Hugh McRoberts, Principal, Audit Operations Branch, of the Office of the Auditor General of Canada. Mr. Michael Nurse Assistant Deputy Minister,

and Mr. Hank van der Linde, Director General, Property and Facilities Management, Real Property Services Branch, represented Public Works and Government Services Canada. The Department of National Defence was represented by its Deputy Minister, Mr. Jim Judd, and by Vice-Admiral Gary Garnett, Vice-Chief of Defence Staff, Mr. Alan Williams, Assistant Deputy Minister, Materiel, and Mr. James W. Richardson, Major Service Delivery Procurement.

Observations and Recommendations

Public Works and Government Services Canada: Alternative Forms of Delivery – Contracting for Property Management Services (Chapter 18)

The audit reported in Chapter 18 looked at the contracting process used by Public Works and Government Services Canada (PWGSC) to contract out the operations and maintenance of two thirds of its buildings. The Department's aim was to contract out non-core activities that could be carried out by the private sector thus allowing it to concentrate on its core roles.

The goal of the audit was to determine whether PWGSC maintained the integrity of the contracting process by preserving openness, fairness and value for money. A related goal was to ascertain whether PWGSC had saved money by contracting out non-core services and whether the department had used an appropriate management framework.

A primary impetus for using new ways to obtain non-core services is the desire to reduce costs. But the Auditor General reports that it will be "a challenge for managers to tell whether they actually save money." It is too early to determine if PWGSC will meet its savings target of 10 percent annually, or $20 million, on its property management costs. Yet it may be difficult to determine whether this goal has been met even when sufficient time has passed.

The audit could not reconcile the baseline costs that the Department used to calculate expected savings, nor could the audit ascertain whether the Department would receive the quantity and quality of services it is paying for. Thus it is possible that the Department could end up saving less than it anticipated while receiving services of a lesser quality.

The property management services contracts, however, did contain features that should promote innovative business processes and help produce savings. A good performance evaluation framework was designed for the initiative and the Department handled the human resources dimension well, aiding a smooth transition to the private sector.

The Committee was particularly interested to learn that PWGSC used a bidding process that was open, transparent and fair. Various measures were taken to promote competition and open access. The Department consulted the industry, sent early formal requests for expressions of interest and gave contractors the time to make alliances or other arrangements to better compete. The successful contractor was a joint venture that was created specifically to bid on the alternative forms of delivery (AFD) contracts. These efforts to create competition deserve to be emulated elsewhere in government when circumstances are similar.

The Department's use of fairness monitors contributed significantly to the success of the initiative. These monitors provided independent assurance to all parties that the process was fair and conducted according to the rules. Potential litigation and complaints were thus avoided. The Committee believes that the use of such monitors should be extended and therefore recommends:

That Public Works and Government Services Canada amend its Contracting Manual to include the use of independent fairness monitors for all large and complex procurements.

Committee Members asked whether there was a mechanism in place that would allow the Department to share lessons learned and best practices with other departments. Mr. Nurse replied that PWGSC's service units work closely with client departments when providing real property management services. Personnel in these units communicate and consult directly with departmental staff and exchange information on that basis.

The Auditor General added that Treasury Board Secretariat's Alternative Service Delivery (ASD) Steering Committee advises on revisions to the Treasury Board's guidance on alternative service delivery. He also indicated that best practices and lessons learned could be shared through the use of departmental performance reports. The Committee believes that further steps should be taken to facilitate the exchange of information and therefore recommends:

That Treasury Board Secretariat establish a forum that facilitates interdepartmental exchange of lessons learned and best practice relating to Alternative Service Delivery; and

That Treasury Board Secretariat encourage Departments and Agencies to use their annual Performance Reports as a vehicle for presenting lessons learned with regard to their Alternative Service Delivery mechanisms.

The Committee raised many questions about the cost savings expected from the outsourcing of real property management services to the private sector. In particular, the Committee was interested in whether or not the data to be generated by the Financial Information Strategy (FIS) would help PWGSC estimate potential savings more accurately. The Department was further asked if its financial systems would be ready to move to full accrual accounting and if its ASD program would be affected by such a conversion.

The Department assured the Committee that it would meet its April 1st, 2001 deadline and that the information generated by the FIS would indeed be very helpful. The Committee wishes to encourage the Department in its efforts and therefore recommends:

That Public Works and Government Services Canada ensure that all its ministerial financial systems, and accounting policies are ready, and its personnel fully trained for the move towards full accrual accounting by April 1st 2001; and

That Public Works and Government Services Canada ensure that all its accounting and financial systems are updated to provide more precise and accurate baseline cost savings estimates for Alternative Service Delivery initiatives.

The Department of National Defence: Alternative Service Delivery (Chapter 27)

With other departments and agencies, the Department of National Defence (DND) has had to maintain its operations while its budget has been reduced. In order to adjust to this environment, DND developed a five-year renewal plan that included alternative service delivery (ASD) as one of its key elements.

The Department identified its non-core activities and internal services as the most appropriate areas for an ASD approach. Collectively, these activities and services cost DND approximately one-third of its annual $10.3 billion budget. Consequently, any savings in these areas are potentially quite significant and could in theory be usefully redirected to the Department's core activities. Indeed, Mr. Judd confirmed that it was the government's intent to focus the Department's reduced resources on combat capabilities and away from administration and support services.

DND shared PWGSC's objective of getting the best value from spending on non-core activities. Consequently, the audit that was done of DND's ASD program also concentrated on that Department's ability to

maintain the integrity of the contracting process, to save money as a result, and to put in place an appropriate management framework to govern the process.

Observations and Recommendations

Public Works and Government Services Canada's alternative service delivery initiative features innovative processes that should result in savings. From this perspective, the Department's ASD program can be considered largely successful. The same cannot be fully said of similar efforts by DND. This is clearly shown by audit results reported by the Auditor General in chapter 27 of his November 1999 Audit.

While PWGSC's projected annual savings of 10% appear reasonable and feasible in most (if not all) respects, DND's estimates have proven to be unrealistic. In 1996, the Department forecast that annual savings would reach $200 million by 1999, increasing to $350 million in 2001. DND has since revised this projection and is now indicating that savings will instead be $175 million annually by the end of the planning period 1999 – 2004. When he reported the results of his audit, the Auditor General noted that the Department was claiming annual savings of about $68 million, or 30% of the target it set in 1995. At that time, he added that he "was unable to verify the actual savings in any of the ASD projects" he had audited. At the Committee hearing, Mr. Judd testified that savings are now actually closer to $62 million annually. This means that in 1999, the savings claimed by the Department were approximately $138 million short of its original forecast.

The Committee agrees with the deputy minister that the actual savings represent a large sum of money. As Mr. Judd later testified, DND keeps this money, which is particularly important for a Department with high capital costs and a budget that has been cut by approximately 30%. However, it is not the size of the savings (although important) that is at issue, but the planning assumptions that produced inaccurate estimates. These problems were evident from the beginning when the Department identified individual services as candidates for alternative delivery.

The first step in transferring a service to an alternate means of delivery is a business case analysis. This is a standard approach whose basic elements are well established. As the Auditor General commented in his Report, "the requirements for business case analysis are basic and represent due diligence in the expenditure of government funds." It is therefore appropriate that the Department's ASD policy calls for such analyses as an integral part of all ASD decisions. The audit revealed, however, that these analyses were not always done or done properly when they were.

In some cases, the existing levels of service in terms of quantities, qualities and costs, were not known before an ASD decision was taken. Baseline costs for several major projects were either inadequately defined (the Meaford Area Training Centre), incomplete (the National Defence Headquarters Facilities Management Project), or only established after the Department decided to move to an alternative form of delivery. (the Goose Bay project) These costs would have shown what it was costing the Department to deliver the services itself.

In some cases where baseline costs had been estimated, the Auditor General could not verify that they were either accurate or comprehensive. Unless these costs are firmly established, it is impossible to know the savings generated by other forms of delivery with any accuracy. As the Auditor General told the Committee, the Department "is likely saving money, but the amount is open to question."

The audit found other gaps that created significant shortcomings in the ASD process. The Department did not consistently assess whether or not the private sector was capable of, or interested in, delivering services it wished to out-source. Analyses of the various potential delivery options – including assessments of the risks associated with them – were often inadequate or incomplete. Not surprisingly, the best options for delivering some services were not necessarily always selected.

In light of these problems, it is difficult to judge the Department's ASD program a success at this stage. Departmental estimates of the savings generated by the program must be treated with extreme caution and there are

questions regarding DND's ability to plan the allocation of its resources if these estimates are used. It is also entirely possible that poor business case analyses might result in the Department actually paying more for certain services, receiving services that are of lower quality, or both. These scenarios have important implications regarding DND's ability to deliver its core services.

The Auditor General noted that the Department has made improvements in its management of ASD projects. Two recent initiatives – the Supply Chain project and the Military Pay project – have shown that change for the better is possible. While the Committee welcomes these improvements and notes the Department's intention to make them part of all future ASD decisions, it seeks a strong commitment to rigorous business case analyses. The Committee therefore recommends:

> **That the Department of National Defence ensure that at the project level, management of all Alternative Service Delivery projects include the preparation, before any decision is made, of a full business case analysis. Such analyses must consist of a determination of current levels of service, baseline costs, and an options analysis.**

During his testimony, Mr. Judd told the Committee not to expect improved results from the changes in the near future. The Department's ASD program, he said,

> Has to be seen very much as a long-term program, and as such, it may not be realistic to expect dramatic and fundamental changes overnight, particularly since we're talking about changing business practices that have in some cases been around for decades.

This comment is similar to the one made by the Department in testimony before this Committee in December 1996. The Committee finds this to be unacceptable. As noted by the Auditor General in his Report, the Department testified that the cultural change needed to implant a more businesslike approach at DND would take a long time.

However, there are reasons to believe that changes should occur immediately. Of the Department's $10.3 billion annual budget, $3.5 billion are spent on support services, leaving, as the Auditor General points out, "considerable scope for savings" from a better managed ASD program. As noted earlier, the Department has already been able to make appreciable improvements in the management of two recent ASD projects. Also of note is the existence, since November 1996, of guidance in the Department for managing ASD projects. This guide (*Guide to ASD Methodology*) was considered sound enough by the Auditor General for use in his audit. He concludes that the problem was that this framework "had not yet been put into practice for many of the projects" he audited.

Collectively, the potential savings available to a Department that needs them for its core services, the existence of a valid management framework, and some recent successes all indicate that timely change is both urgent and feasible. With this in mind, the Committee recommends:

> **That the Department of National Defence, under the leadership of its Deputy Minister, apply all aspects of its management framework for its ASD program immediately.**

Furthermore, the Committee believes that cultural change is needed in the Department in order for it to achieve the full benefit of its ASD management framework. Accordingly, the Committee recommends:

> **That the Department of National Defence, under the leadership of its Deputy Minister, assign immediate priority to the development of a departmental culture that favours an awareness of costs and a more businesslike approach.**

Parliament needs to be informed, on a regular and consistent basis, of the progress the Department is making in achieving its ASD objectives. This will have the added benefit of encouraging the Department to establish

realistic goals and then measuring its performance in achieving them. If executed properly, this should also enable the Department to make timely adjustments in response to what it is learning. The Committee thus recommends:

That the Department of National Defence include specific reference to its plans and savings targets for its ASD projects in its annual Report on Plans and Priorities beginning with fiscal year 2001-2002, and that it report progress in its annual Performance Report beginning with the report for the period ending 31 March 2002. Reference should be made in the latter document to lessons learned and applied.

The Auditor General testified that problems with business case analysis "show that departmental staff lack the skills to assess complex projects." In his view, business case analyses were unlikely to improve unless DND staff acquired the necessary skills. For their part, departmental witnesses stressed that better training was already taking place. Vadm Garnett told the Committee that "a number of training modules and workshops in business case analysis" are now available at the CF Management Development School in Saint-Jean, Québec. These are positive developments and the Committee recommends:

That the Department of National Defence assign priority to ensuring that its departmental staff have the necessary skills and training to manage its ASD program; and

That the Department of National Defence make specific reference to the human, financial, and technological resources it will devote to implementing its ASD program in its annual Report on Plans and Priorities beginning with fiscal year 2001 – 2002.

The Committee takes a close interest in the government's Financial Information Strategy (FIS) and has become a strong advocate of its timely and complete implementation. In response to questioning, Mr. Judd agreed that the use of FIS would assist the Department in making its ASD program a success. The support of senior departmental management is crucial if FIS is fulfil its potential; the Committee therefore welcomes Mr. Judd's commitment and recommends:

That the Department of National Defence resolve any remaining substantive issues with Treasury Board Secretariat related to the implementation of the Financial Information Strategy and meet all of its target implementation dates; and

That the Department of National Defence use data and information generated by the Financial Information Strategy to guide its Alternative Service Delivery program, as well as all other aspects of its operations in which financial information is needed for planning purposes.

Conclusion:

The number and variety of non-traditional means of delivery of government services is expanding. This creates several important challenges. Government and its departments are faced with the task of monitoring the design and implementation of new mechanisms. Innovation must be allowed to take place, but only within a framework that clearly specifies roles, expectations, and obligations. Risks associated with innovation can and must be minimized by knowing and using proven management techniques. What does not work must be swiftly abandoned in favour of what does. The costs involved must be accurately established and used as the basis for all decisions.

As departments and agencies cope with these challenges, an obligation that is paramount in Canada's system of government is all too often neglected: the obligation to account for the expenditure of public funds and for the outcomes that are achieved as a result. It is for that reason that the Committee has emphasized the need to keep Parliament regularly informed of changes in the way government services are delivered. Accountability is far too important to be neglected in favour of administrative convenience, no matter how pressing the need may appear.

During its hearing, the Committee heard encouraging testimony on the progress being made in alternative service delivery. It also learned of many shortcomings. The Committee thoroughly expects that these shortcomings can and will be resolved. It also expects that methods for resolving problems along with other best practices will be shared. Its recommendations, with those made by the Auditor General of Canada, are intended to contribute to these ends.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 12, 19 and 23)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

ELEVENTH REPORT

The Standing Committee on Public Accounts has considered Chapter 17 of the September 1999 Report of the Auditor General of Canada (*Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit*) and the Committee has agreed to report the following:

Introduction

"Collaborative arrangements" is a recent term used to describe collective efforts by Canadian governments to provide services to Canadians. These efforts involve agreements between levels of government and, on occasion, the voluntary and private sectors, to share power, responsibilities, and costs in designing and providing services. While Canadian governments have worked together in this manner in the past, collaborative arrangements have become more frequent and wider in scope.

The Canada Infrastructure Works Program (the Program) is a major example of a collaborative arrangement. Initiated in 1994, the Program involved the participation of three levels of government – federal, provincial, and municipal – in an effort intended to boost employment and maintain and develop local infrastructure. The federal government was responsible for approving joint funding for projects proposed by the provinces. Provincial governments assumed responsibility for day-to-day operations and program delivery.

The Program was temporary in nature, and was originally slated to end after two years, but with disbursements to be allowed over three years. In its 1995 Budget, the federal government extended the Program until 1998 – 99, but did not provide for additional funding.

By the time the Program ended, in March 1999, the three levels of government had spent in excess of $8.3 billion. The federal government's contribution amounted to $2.4 billion.

The Auditor General included the results of an audit of the Program in his Report of November 1996. These results were reviewed by the House of Commons Standing Committee on Public Accounts, which subsequently issued a report (Sixth Report) with recommendations on 17 November 1997.

In January 1997, the Government announced that the Program would be extended (referred to as Phase II) and that it would provide an additional $425 million to support new projects. The provinces and other partners were to contribute a further $850 million. Thus, in 1999, when the Auditor General conducted a follow-up of his 1996 audit, the Auditor General combined it with an audit of Phase II.

These factors explain the Committee's interest in reviewing the audits' findings. The Program was innovative, involved substantial expenditures, and had been the subject of a previous report by the Auditor General and by the Committee. An announcement by the Government that it will extend the Program for a third phase makes it even more imperative to learn the lessons the earlier phases have to teach — and to apply them now. Accordingly, the Committee met twice with witnesses to examine Chapter 17 of the September 1999 Report of the Auditor General of Canada.

The first meeting took place on 24 February 2000. Mr. L. Denis Desautels, FCA, Auditor General of Canada, and Ms Maria Barrados, Assistant Auditor General, represented the Office of the Auditor General of Canada. Mr. Richard B. Fadden, Assistant Secretary, Government Operations Sector, and Mr. Ralph Heintzman, Assistant Secretary, Service and Innovation represented the Treasury Board Secretariat of Canada.

A second meeting was held on 21 March 2000, at which time Ms. Barrados represented the Office of the Auditor General. Mr.Henno Moenting, and Mr. John Mayne, both Principals with the Audit Operations Branch accompanied her. Dr. Eric L. Shipley, Director General, Information Management and Program Operations, Infrastructure, Mr. Toby Fyfe, Director, Alternative Service Delivery, Service and Innovation and Mr. Tom Fitzpatrick, Senior Policy Officer, Service and Innovation appeared on behalf of Treasury Board Secretariat.

Observations and Recommendations

The Canada Infrastructure Works Program (CIWP, the Program) was remarkably successful from several perspectives. As a collaborative arrangement, the Program involved the mobilization, co-ordination, and co-operation of three levels of government. This level of co-operation between Canadian governments is not often achieved; that it was in this instance is a credit to all participants. It is thus hoped that from this perspective the Program will serve as a model for future efforts.

The Program, as noted by the Auditor General, was hailed by participating officials for creating positive federal-provincial relations. In both of his Reports the Auditor General informed Parliament that responsibilities under the Program were allocated properly on the basis of each partner's expertise. This was appropriate from both constitutional and practical perspectives.

The funding formula (roughly one-third of the costs contributed by each partner) allowed the Program's partners to support projects collectively that they could not afford individually. Projects funded by the Program were clearly identified as collective efforts between three levels of government. This would have given Canadians tangible evidence that their governments are capable of working together to stimulate the economy and provide needed infrastructure.

The Program resulted in the implementation of more than 17,000 engineering and construction projects nation-wide. Many of these projects, as Mr. Fadden was careful to point out, involved the construction or repair of vital infrastructure and provided lasting benefits for numerous communities. Lastly both phases of the Program were implemented quickly, a key factor for success because, as the Auditor General observed in his 1996 audit, "[t]iming is an important consideration for the cost effectiveness of the program, as it was intended to stimulate economic activity when it was most needed."

The Committee acknowledges the efforts of all three levels of government and believes that the Program represents a sound model for future collaborative arrangements. Nevertheless, the audits revealed a number of shortcomings – some of which continued from one phase to the next in spite of corrective actions recommended by the Auditor General in 1996. These shortcomings involved financial management and control, audit, and information for Parliament.

The Canada Infrastructure Works Program is a contributions program. This means that federal funding is contingent upon fulfilment of certain performance conditions and compliance with program requirements that include appropriate control of public funds. As the Auditor General points out,

> These requirements have important implications for the Program's accountability regime – in terms of accountability among the partners to the [separate federal-provincial infrastructure works] agreements and also accountability to Parliament for expenditures undertaken and results achieved.

The audit found, however, that insufficient assurance was obtained that the Program's performance conditions and requirements were met. In some provinces, funding was given to municipalities for work done even though provincial officials had not demanded invoices or proof of payment. In every province examined, federal officials relied on provincial and municipal certifications that projects were implemented and that costs were claimed in accordance with the federal-provincial agreements and guidelines.

Compliance audits are one means of ensuring that appropriate financial and management controls are in place. Such audits can also provide some level of assurance when receipts and detailed statements of expenditures are not available and certifications used instead. The Committee recognized the utility of compliance audits and endorsed their use with respect to the Canada Infrastructure Works Program in its Sixth Report of the 35th Parliament.

Treasury Board Secretariat indicated that compliance audits were a requirement in Phase II, a step taken in response to one of the Auditor General's 1996 recommendations. The Auditor General discovered, however, that the implementation of compliance audits was slow. Apart from Québec and to some extent British Columbia, such audits were scheduled for completion only after "considerable" amount of time had elapsed since the start of the Program. In many cases, compliance audits only took place after projects were completed and the funding paid out. Completion averages for compliance audits were approximately two and one-half years into the Program.

In those instances in which timely compliance audits did take place, some payments were held back until supporting documents were provided. Québec provides a particularly useful illustration of how compliance audits can work. In that province, a sample of projects is selected based on risk and materiality, and is audited before final payment is made. If an adjustment is needed, the amount is deducted from the final payment. The Committee acknowledged the merit of Québec's approach in its Report of 17 November 1997 and recommended that its example be followed.

Timely compliance audits provide the assurance needed by officials at all levels of government, by parliamentarians, and by Canadians that public moneys have been spent only for the purposes intended. The Committee therefore recommends:

That provisions for the completion of compliance audits prior to the release of final payments be incorporated into all federal-provincial agreements for Phase III of the Canada Infrastructure Works Program. Such audits should focus on samples of projects selected on the basis of materiality and risk.

An additional advantage of timely compliance audits is that they can point to the need make changes in program approach. Another means of identifying needed changes is through a process of rigorous program evaluation.

Dr. Shipley noted that an evaluation was done of Phase I of the Program. He commented that it was "very helpful to all concerned," and that lessons learned from the evaluation "can very easily be carried over" to Phase III. He also said "it would certainly be a wise idea to build in the requirements for evaluations along the way of what will be a five-year program." The Committee agrees and recommends:

That the lessons learned as a consequence of the evaluation of Phase I of the Canada Infrastructure Works Program be fully incorporated into the design of the Program's third phase.

Furthermore, the Committee recommends:

That an evaluation framework for interim evaluations and a final program evaluation for Phase III of the Canada Infrastructure Works Program be developed during the design phase of the Program.

This framework must clearly specify evaluation roles and responsibilities, and be in place prior to the Program's implementation;

That an evaluation framework for Phase III of the Canada Infrastructure Works Program focus on the achievement of all of the Program's objectives;

That sufficient resources for the conduct of interim and final evaluations be set aside prior to the implementation of Phase III of the Canada Infrastructure Works Program;

That the evaluation framework for Phase III of the Canada Infrastructure Works Program be tabled in the House of Commons prior to the initiation of the Program;

That the report and all related documents containing the results of the final program evaluation of Phase III of the Canada Infrastructure Works Program be tabled in the House of Commons within one month of their completion; and

That there be a formal commitment made to follow up on all findings and recommendations contained in the interim and final evaluations of Phase III of the Canada Infrastructure Works Program, especially as they relate to subsequent programs of a similar nature.

One of the Program's principal goals was to provide funding for infrastructure projects in addition to projects already planned or underway and funded under other arrangements. In other words, the focus was to be on new projects that would create new jobs and infrastructure and that would not have proceeded without CIWP funding. However, the Program's funding formula (roughly one third to be paid by each level of government) was in marked contrast to the formulae used by provincial governments and their municipalities, which saw provinces assuming between 50 and 100% of the costs. This created an incentive to transfer provincial-municipal projects to the more attractive funding formula offered under the CIWP – a phenomenon known as program substitution.

While it is never possible to eliminate program substitution entirely, planners can and should take steps to reduce its occurrence. Yet despite concerns raised by the government's 1996 evaluation and the Auditor General's examples of effective safeguards, provisions to limit substitutions between federal and provincial programs were "the exception rather than the rule" in Phase II.

Program substitution is a major potential obstacle to the creation of new jobs and new projects. The provision, therefore, of safeguards to limit its extent must be the rule in all future agreements. The Committee recommends accordingly:

That safeguards against program substitution be built in to the design of Phase III of the Canada Infrastructure Works Program, with specific reference to effective measures already in use in the Provinces of Québec and Saskatchewan.

Job creation was one of the Program's central objectives and the number and type of jobs it generated have thus become a principal measure of its success. It therefore comes as no surprise that the Program's job creation statistics have become the subject of some controversy. While the Committee has no desire to take sides in this dispute, it does see considerable merit in making explicit the type of jobs created and the methodology used to calculate the numbers. The Committee therefore recommends:

That when Treasury Board Secretariat reports to Parliament on the estimated number of jobs created as a result of Phase III of the Canada Infrastructure Works Program, it specify the types of employment involved (full time, part time, temporary, permanent, indirect, direct), the method(s) used to calculate the numbers, and any limitations associated with the estimates that are presented.

In reviewing the results of this audit, the Committee was particularly disappointed in both the content and tone of Treasury Board Secretariat's response to the Auditor General's recommendations. In some instances, the Secretariat agreed, but provided minimal detail regarding the actions it would take. In other instances, recommendations were flatly rejected. The Secretariat stated that in its opinion, the chapter containing the audit results presented "an inappropriately negative view" of a highly successful program.

The Committee believes that the Secretariat is missing the point and is overlooking opportunities to make useful improvements to Phase III of the Program. Given that a more thoughtful consideration of, and response to the recommendations is warranted, the Committee recommends:

That Treasury Board Secretariat carefully review the observations and recommendations contained in Chapter 17 of the September 1999 Report of the Auditor General of Canada and submit a detailed action plan setting forth the measures it will take in response to the House of Commons Standing Committee on Public Accounts no later than 30 September 2000.

Conclusion

In less than one year, the federal government and Canada's provinces and territories will embark on a third phase of the Infrastructure Works Program. As noted by the Auditor General of Canada and other witnesses who appeared before the Committee, earlier phases of the Program exhibited certain strengths and produced various benefits. But there were also a number of shortcomings brought to light by two audits.

The existence of these shortcomings does not make this program a failure. But the failure, by the designers of the next phase, to learn the lessons the identification of these problems has provided would, in this Committee's view, significantly hinder the Program's future success. The time remaining before implementation should allow the designers ample opportunity to make the changes called for by this Committee and the Auditor General of Canada.

In closing, the Committee has taken note of the work done by the Auditor General of Canada in conjunction with a number of his provincial counterparts in the conduct of this audit. The Committee has previously recommended the use of this form of collaborative arrangement and is pleased to see that its suggestions have been followed.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 14, 18 and 28)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

TWELFTH REPORT

The Standing Committee on Public Accounts has considered Chapter 30 of the November 1999 Report of the Auditor General of Canada (*Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices*) and the Committee has agreed to report the following:

Introduction

Over the past several years, the Auditor General of Canada and this Committee have been scrutinizing the contracting activities of the federal government. The Auditor General examined the government's contracting performance in 1997 and reported his findings to the House of Commons that same year. This report set out the general roles, responsibilities and expectations in the government's use of contracting for goods and services. It also contained suggested performance criteria and indicators for contracting as well a framework for conducting future audits of contracting.

In chapter 26 of his December 1998 Report to the House of Commons (*Contracting for Professional Services: Selected Sole-Source Contracts*), the Auditor General presented the results of an audit that was conducted on a sample of 26 directed (or sole-source) contracts valued over $25,000 each issued by five departments for professional services. One important feature of the contracts was that they were let without an open and competitive tendering process. This audit's principal conclusion was that the government's rules for awarding non-competitive contracts were not being followed. The Auditor General also drew attention to the inappropriate use, by departments, of Advance Contract Award Notices (ACANs) to in effect deem sole-source contracts as competitive.

This Committee subsequently held a hearing on these audit results. At that meeting, officials from Treasury Board Secretariat maintained that because the sample of audited contracts was not selected at random and was small, the results could not be generalized to government as a whole. Although all witnesses agreed that ACANs provided transparency with regard to sole-source contracts, they were divided as to whether or not ACANs made the contracting process competitive. Mr. Alan Winberg (then Assistant Secretary, Risk, Procurement and Asset Management Sector at Treasury Board Secretariat) asserted that "If the procurement is transparent, if industry is aware of the opportunity and if they have the opportunity to participate, we [Treasury Board Secretariat] believe that the contract should be deemed to be competitive." (1640) He thus reasoned that because ACANs created transparency they rendered the process competitive. The Auditor General did not agree. In its Twenty-Eighth Report, tabled 5 May 1999, this Committee expressed its own concerns about elements of ACANs that disqualified them as a surrogate for competitive tendering.

As a consequence of the Committee's ongoing interest in the government's contracting activities in general and sole-sourcing and the use of ACANs in particular, the Committee decided to review chapter 30 of the Auditor General's November 1999 Report (Sole-Source Contracting for Professional Services). It also decided to concurrently examine the results of an audit of a sole-source contract issued by the Department of National Defence for support services for the NATO Flying Training in Canada program as reported in chapter 27 of the November Report (*National Defence: Alternative Service Delivery*).

Accordingly, the Committee met on 4 April 2000 with Auditor General of Canada, Mr. Denis Desautels, FCA, and Mr. Peter Kasurak and Mr. Hugh McRoberts, Principals of the Audit Operations Branch of the Office of

the Auditor General of Canada. Deputy Comptroller General Richard Neville, Roberta Santi, Assistant Secretary, Risk, Procurement, and Asset Management, and Jane Cochrane, Senior Director Procurement Management appeared from Treasury Board Secretariat. Mr. Rick Burton, Director General, Materiel, appeared on behalf of the Department of National Defence.

Observations and Recommendations

Contracting is an indispensable means for government departments to acquire goods and services they need to carry out their mandates. For the suppliers of these goods and services, government contracts are not only a source of income, but also an opportunity (especially for newer or smaller entities) to demonstrate and enhance their capacities. Government contracting activity is also of significance to communities across Canada in which suppliers are located. When it is conducted properly, contracting thus provides benefits to all concerned – government, suppliers, and Canadian citizens alike.

In Canada, the principles underlying the contracting process and the framework of rules governing its conduct, are sound. The principles are simple: the contractor (the federal government) is to obtain best value (the best combination of value and price) and provide open access (fair opportunity for all qualified vendors to do business with the Crown) to the contracting process. These principles are realized through a set of equally straightforward rules, as expressed in Government Contracts Regulations, and Treasury Board Secretariat's Contracting Policy: all contracts must be let through open, competitive biding except – and only except – when one of the following conditions are present:

- The contract is valued at less than $25,000;
- There is a pressing emergency;
- It is not in the public interest to solicit bids; or
- Only one firm or person is capable of doing the work.

This Committee, the former House of Commons Committee on Government Operations, the Auditor General of Canada, and the Treasury Board Secretariat have all endorsed these rules. Given this wide support for rules that are exceptionally clear, it is extremely disappointing for this Committee to learn that they are still not being followed.

In chapter 30 of his November 1999 Report, the Auditor General has presented Parliament with indisputable evidence that departments are either ignoring the rules for sole-source contracts, or do not understand them. In either instance, the situation is completely unacceptable. Close to 90 percent of the 50 directed contracts examined for this audit "did not fall under any of the exceptions [which allow departments to bypass competitive bidding] or did not have adequate evidence of doing so and hence ought to have been competitively tendered." The Auditor General concluded, as he had at the end of his previous audit, that "the process of awarding most of the contracts audited in this sample would not pass the test of public scrutiny."

The audit findings thoroughly support this assessment. Problems were found in each phase of the contracting process. The need to contract a service rather than obtaining it in some other, perhaps less costly, manner had not been established in 95 percent of the audited contracts. Forty-six percent had statements of work and statements of requirements that were not clear about the levels of effort and performance expected, the services to be delivered and the costs involved. In some cases, the contractors themselves drew up the statements of work and requirements. Only one of the four departments involved had a means established for the formal review of all proposed contracts – and it was relatively limited in its mandate and did not address sole-source contracts. Only 11 percent of the 50 sole-source contracts that were audited had a justification on file that complied with the conditions

stipulated in the Government Contract Regulations. Most of the decisions made to sole source were made on the basis that the supplier was the only one capable of providing the service required – but in 89 percent of the 50 cases, the uniqueness of the contractor had either not been established or was not supported in fact.

In drawing up contracts, departments had generally failed to ensure that those who had been awarded sole-source contracts would provide the Crown with their best rates. Apart from the 39 percent of the audited cases in which this was done, the departments were not able to provide any other evidence that the government was receiving good value from the contracts in question. In almost 50 percent of the cases, departments were unable to provide copies of suppliers' invoices and sign-offs certifying that the services delivered in accordance with contract requirements and in accordance with section 34 of the *Financial Administration Act*. In 56 percent of the cases, departments could not provide evidence that the deliverables specified in contracts had been provided in full, on time and at the agreed cost.

Treasury Board Secretariat's solution to these problems is more training. (1605) Since the rules governing contracting are straightforward and have been in place for some time, the Committee has difficulty comprehending how more training – although not a bad thing in itself – will solve problems that are widespread and persistent. Instead the key lies in creating a system of incentives that will encourage adherence to the rules. Accordingly, the Committee recommends:

> **That scrupulous adherence to the Government Contracting Regulations and Treasury Board Secretariat's Contracting Policy be taken into account as one of the factors used in decisions to promote public servants engaged as contracting authorities and technical authorities in departments and agencies.**

Advance Contract Award Notices (ACANs) have been used since 1992 to publicly advertise the government's intent to award a sole-source contract. It is generally agreed that if used properly, ACANs provide transparency surrounding the process and offer other potential suppliers an opportunity to challenge a directed contract before it is issued. The audit, however, revealed that ACANs have not fulfilled these expectations.

ACANs should provide enough information to allow potential suppliers to challenge the award of a sole-source contract. In 58 percent of the audited contracts, this was not the case. ACANs should indicate which of the four exceptions are being used to justify sole sourcing: only 54 percent of the cases did so. ACANs should provide potential suppliers enough time to submit a challenge; over 90 percent of the audited cases were posted for less than 15 days. All of these factors put potential suppliers at a disadvantage, reduce the likelihood of challenge, and make for a non-competitive environment.

The odds are still stacked against potential suppliers should they manage to submit a challenge. Procedures and practices are inconsistent, especially regarding the amount of proof that is required from challengers. Indeed, the audit found that:

> The level of effort required of a challenger to demonstrate proof of his or her capacity to meet the contract's requirements is much higher than is required of the supplier named in the ACAN.

To make matters worse for challengers, the same managers who awarded the sole-source contracts in the first place review their challenges. If they reject the challenge, the challenger has no recourse to an independent third party to appeal the decision. It is therefore not surprising that the Deputy Comptroller General was able to tell the Committee that he had been told that:

> There are very few [challengers] who actually meet the requirements and therefore can proceeded to the point where the procurement officer … will decide to open the competition.

In paragraph 30.71, the Auditor General sums up the obstacles confronting potential suppliers who might wish to challenge a sole-source contract:

> Very short time frames to formulate a challenge (15 days at most and typically less); an already chosen supplier who may have had months and the assistance of departmental officials to develop its proposal; a statement of requirements that may be vague and incomplete; a decision on the challenge's validity made by the very people who originally elected to sole-source, judged against unknown criteria to meet an unspecified standard of proof…

It is no wonder, even if the Auditor General estimated that about 90 percent of the ACANs posted are potentially open to challenge, only 35 of the 522 ACANs issued by four departments in 1998 were formally challenged and only 4 were accepted. Mr. Neville responded that this "doesn't leave us [Treasury Board Secretariat] with the impression that there are serious problems out there in terms of the challenge process." The Committee has quite the opposite impression and recommends:

> **That Treasury Board Secretariat immediately amend its Contracting Policy in order to specify that ACANs be posted for a minimum period of 30 days;**
>
> **That Treasury Board Secretariat amend its Contracting Policy to require departments and agencies to implement, by 31 July 2000, an independent mechanism for the review of all challenges that are received following the posting of Advance Contract Award Notices; and**
>
> **That Treasury Board Secretariat monitor departmental review of challenges to Advance Contract Award Notices and begin reporting the results accompanied by detailed explanations showing why challenges were either excepted or denied in its Annual Contracting Activity Reports beginning with the report for 2001.**

As noted above, Treasury Board Secretariat deems sole-source contracts that are made public through ACANs to be competitive and treats them as such when it compiles statistics for its Annual Contracting Activity Reports. However, the Committee believes that the weight of evidence produced by the Auditor General demonstrates that posting an ACAN does not automatically render the process competitive. The Committee therefore recommends:

> **That Treasury Board Secretariat cease its practice of deeming sole-source contracts posted in Advance Contract Award Notices as competitive until the recommendations made by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts with regard to sole-source contracts have been fully implemented and it can provide reasonable assurance that all existing requirements related to the circumstances under which sole source contracts may be awarded have been satisfied.**

As part of its review, the Committee examined the $2.8 billion, twenty-year, NATO Flying Training in Canada sole-source contract awarded by the Department of National Defence. The Committee's concerns relate principally to the manner in which the contract was awarded rather than to the success of the project itself. Chapter 27 of the Auditor General's November 1999 Report informed the House of Commons that in awarding this contract, DND did not establish that the supplier was unique and that the department's decision not to follow the normal bid solicitation process "was not adequately justified."

For example, departmental officials claimed that the benefits from the deal meant that competitive tendering was not in the public interest, rationale that does not conform to the Government Contracts Regulations' definition of public interest. In addition, the Auditor General expressed concerns about the level of profit that was awarded to the contractor – about $200 million over 20 years – which he argues was not consistent with Public Works and Government Services Canada's guidelines.

This contract not only demonstrated compliance problems found elsewhere but according to the Auditor General, shows that the government's existing framework for outsourcing major services is inadequate. The framework does not provide enough guidance on competition issues in a limited market, nor does it offer sufficient guidance to officials on how to evaluate risk and how to analyze and document the transfer of risk to the private sector.

While the Committee acknowledges that DND has already taken concrete measures to improve its contracting practices (for example, Mr. Burton told the Committee that DND is submitting challenges to ACANs to an adjudication process independent of the manager that issued the initial contract.), it remains concerned about the inadequacies identified by the Auditor General in the existing contracting framework. The Committee therefore recommends:

That, as part of its interdepartmental initiative to reform procurement, Treasury Board Secretariat address questions regarding large service contracts raised by the Auditor General of Canada in testimony before the House of Commons Standing Committee on Public Accounts on 4 April 2000.

The Committee is deeply concerned about the response given this audit by Treasury Board Secretariat. In his opening remarks before this Committee in March 1999, the (then) Deputy Comptroller General Colin Potts affirmed that with regard to contracting, Treasury Board Secretariat was "open to ideas to improve our policies." However, the Secretariat's reaction to the Auditor General's recommendations -- in effect his "ideas to improve" contracting – could only be generously described as non-committal. Indeed, the Auditor General, having found ample evidence of exactly the same problems in this recent audit, felt compelled to repeat the essence of two of his recommendations, an extremely rare event. Furthermore, this Committee made a series of well-intentioned recommendations designed to ameliorate a badly flawed contracting process. Once again, it would require considerable effort to describe the Secretariat's response as enthusiastic.

The persistence and scale of the shortcomings identified by successive audits should provide more than enough evidence to cause alarm at Treasury Board Secretariat. It is astonishing that this is not so. If change is to occur, Treasury Board Secretariat must move beyond denial, admit that there is a serious problem, and then take serious corrective action. In expending its resources in a rearguard defensive effort, it is wasting valuable time and – while a flawed contracting process continues unchecked – considerable sums of taxpayers' money. Accordingly, the Committee urgently recommends:

That by no later than 31 August 2000, Treasury Board Secretariat develop an action plan to implement all recommendations contained in chapter 26 of the December 1998 Report of the Auditor General of Canada and chapter 30 of the November 1999 Report of the Auditor General of Canada. This action plan is to contain a specific timetable listing when its various components are to be implemented, and must be submitted to the House of Commons Standing Committee on Public Accounts no later than 15 September 2000; and

That in developing its action plan, Treasury Board Secretariat devote particular attention to recommendations found at paragraphs 30.85, 30.86, 30.88, and 30.89 of chapter 30 of the November 1999 Report of the Auditor General of Canada to the House of Commons, all of which are fully endorsed by the House of Commons Standing Committee on Public Accounts.

Conclusion

It is difficult to underestimate the value and importance of the federal government's contracting activities. In 1997, for example, contracts of $25,000 and above for all types of services (and thus subject to the rules governing sole-source contracts) had a total value of $3.9 billion. These contracts, as mentioned at the outset, represent a substantial source of income for suppliers, their employees, and the communities they are located in. For departments and agencies, the ability to contract for services offers a potentially efficient way of complementing in-house capacity in a cost-effective manner.

It is therefore disturbing to learn – yet again – that the contracting process is poorly managed and that the rules surrounding it are either not understood, or worse, ignored. The rules clearly establish that open, competitive bidding for contracts valued at $25,000 and above must be the norm. This is the best way to ensure that all parties – government, suppliers, and taxpayers – get the best deal. The rules clearly state that competitive bidding must only be set aside under exceptional circumstances and that decisions to do so must be fully justified and documented. When these rules are broken, no one – with the exception of the recipient of a directed contract – gets a good deal.

ACANs – which do provide transparency – could go a long way in compensating for benefits lost when the traditional bidding process is not used. But instead they are openly being managed in a way that negates any of the advantages they might offer. Remedies are available and not difficult to put into practice.

The Committee is therefore at a loss to understand why corrective and decisive action has not been taken to improve ACANs and eliminate non-compliance with contracting rules. The testimony provided by officials from Treasury Board Secretariat certainly failed to provide a satisfactory explanation. The Committee is also at a loss to understand why a number of sound recommendations presented by the Auditor General of Canada were, in his words, "flatly rejected."

The Committee agrees with the Auditor General that the "tide of non-compliance [with contracting regulations] is now so high that … it can no longer be ignored." (1540) It therefore expects that its recommendations and those submitted by the Auditor General of Canada will be treated in a spirit similar to the one in which they have been presented.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 20 and 28)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

THIRTEENTH REPORT

The Committee has reviewed Chapters 23 and 24 of the November 1999 Report of the Auditor General of Canada (*Involving Others in Governing: Accountability at Risk* – and – *The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing)* and has agreed to report as follows:

Introduction

Traditionally, government programs and services are delivered by the departments and agencies that report directly to ministers and are subject to common administrative rules and regulations. In recent years, however, the federal government has been experimenting with new forms of delivery that involve outside organizations, either as agents or as suppliers of services. Federal regulation of these new methods of delivering programs and services has been entrusted to outside entities that are not directly accountable to ministers and Parliament.

These new governance arrangements challenge the principles of parliamentary control and accountability. If the arrangements make no specific provision for accountability and parliamentary review, the government's ability to determine whether the funds and authority are being used in accordance with federal objectives may be compromised.

While there is a risk of accountability being watered down, these new governance arrangements can also be more flexible, efficient and effective. The delivery of government programs and services entails a constant quest for balance between efficiency, results and adequate accountability.

Given the Public Accounts Committee's interest in accountability and new governance arrangements, it was decided to review chapters 23 and 24 of the November 1999 Report of the Auditor General of Canada. The Committee held two meetings on the issue. Witnesses appeared first on February 24, 2000. The Office of the Auditor General of Canada was represented by L. Denis Desautels (Auditor General of Canada), Maria Barrados (Assistant Auditor General) and Neil Maxwell (Principal, Audit Operations). Appearing on behalf of the Treasury Board Secretariat of Canada were Richard B. Fadden, (Assistant Secretary, Government Operations Sector), Tom Fitzpatrick, (Senior Policy Officer, Service and Innovation), Ralph Heintzman, (Assistant Secretary, Service and Innovation) and Toby Fyfe, (Director, Alternative Service Delivery Division, Service and Innovation). The second meeting was held on March 21, 2000, and the Office of the Auditor General of Canada was represented by Maria Barrados, Henno Moenting and John Mayne (Principals, Audit Operations). E. L. Shipley (Director General, Information Management and Project Delivery, Infrastructure Works Canada), Tom Fitzpatrick and Toby Fyfe appeared on behalf of the Treasury Board Secretariat of Canada.

Observations and Recommendations

Over the past decade, the government has increasingly joined forces with other levels of government, the private sector and the voluntary sector to ensure the delivery of its programs and services. These new arrangements raise a major concern: how will they ensure appropriate accountability to Parliament and the Canadian public regarding the objectives of federal policy. It is not easy to come up with an appropriate and acceptable accountability

system when a joint program is being delivered under a separate set of rules by federal and provincial partners or when a partner operates outside the public sector under the *Canada Corporations Act* or the *Canada Business Corporations Act*.

It is important for Parliament to insist that new governance arrangements ensure adequate accountability. Information must be available in order to determine whether those arrangements are working, whether the resources and public funds are being used wisely, and whether the public interest is being well served.

Chapter 23 describes the key elements of a governance arrangement for all levels of governance. Those elements include disclosure to Parliament and the public of pertinent information about the arrangement and its performance relative to the established objectives; effective accountability mechanisms to ensure that suitable audit and evaluation systems are put in place; adequate transparency for major decisions; and mechanisms to protect the public interest, such as citizen complaint and redress mechanisms.

Not all the governance arrangements audited were created on the basis of the above elements. The Auditor General of Canada, Denis Desautels, urged the Committee to ask the Treasury Board Secretariat of Canada about the status of efforts to develop a framework that departments should use when creating new governance arrangements. Mr. Desautels expressed the view that MPs should be consulted so that the framework conveys their concerns about accountability.

Mr. Desautels suggested that the Committee could ask departments to review their current arrangements and come up with remedial plans if there are any problems with those arrangements.

The Committee is very concerned about the large number of weaknesses in the framework of many existing governance arrangements. For example, the audit identified several cases of governance arrangements that had problems with the monitoring regime (for example, poor financial management and inadequate controls) and other cases where there were elements missing from their accountability mechanisms (poorly defined performance expectations, vague provisions regarding evaluations, etc.).

The Committee therefore recommends:

That the Treasury Board Secretariat review and develop as quickly as possible a new general governance framework to ensure more consistent direction and to guide departments and agencies when they are establishing frameworks for their own governance arrangements. The Treasury Board Secretariat should report to Parliament on the status of this initiative in its Performance Report, beginning with the report covering the year ending March 31, 2000;

That the Treasury Board Secretariat encourage departments to identify opportunities to review and renegotiate with their partners new governance arrangements that incorporate all the essential elements of an effective governance framework; and

That departments which sponsor new governance arrangements review their governance frameworks and regularly report to Parliament through their plans and priorities reports. The report should include the departmental action plans and implementation timetables, as well as the financial, technological and human resources allocated to those efforts. Departments will have to inform Parliament of their progress on these initiatives in their Performance Reports, beginning with the report covering the year ending March 31, 2000.

A disturbing fact brought to light by the audit is that the government was unaware of the scope of governance arrangements. At the beginning of its investigation, the audit team asked the government how many new governance arrangements had been created since 1990, what form those arrangements took and how much money

the federal government had committed to them. The government had little or no information about the number of new service delivery alternatives or new governance arrangements.

The audit also showed that many new governance arrangements include more than one agreement. According to the Office of the Auditor General of Canada, if all agreements of that type are included, the total number of new arrangements rises to more than 280. The Committee asked the Office of the Auditor General for a complete, up-to-date list of these multiple agreements.

The Committee therefore recommends:

That the Treasury Board Secretariat develop and maintain a database listing the number of new governance arrangements created, classified by basic form (cooperative arrangement, delegated governance, etc.) and the total amount of federal government funds committed annually by type of governance arrangement. This information will have to be submitted to Parliament in table form in the Performance Reports, beginning with the report covering the year ending March 31, 2000;

That the Treasury Board Secretariat develop and maintain a database listing the number and type of new governance arrangements that include more than one agreement, and the total amount of federal funds committed annually. This information will have to be submitted to Parliament in table form in the Performance Reports, beginning with the report covering the year ending March 31, 2000; and

That the Treasury Board Secretariat publish all the above information on new governance arrangements as well as all other pertinent information in its annual report to Parliament entitled *Crown Corporations and other Corporate Interests of Canada*, beginning with the report covering the year ending July 31, 2000.

The Financial Information Strategy (FIS) is an initiative aimed at modernizing and improving financial systems and accounting practices in the federal government by adopting full accrual accounting. The FIS is designed to improve decision making and accountability. The Committee supports this initiative and wanted to know how the strategy could help new governance arrangements.

According to the witnesses, the FIS will ensure closer comparison between financial information and operational data, which in turn will provide a vital tool for managers to use in making decisions and administering government programs. The FIS will certainly lead to improvements in the production of credible reports and accounting mechanisms.

The direct impact of the FIS on partnership governance arrangements will be limited by the scope of federal involvement in the cooperative arrangements. Delegated governance arrangements will not be directly affected by the FIS at all because they have their own financial systems and accounting practices.

Nevertheless, the Committee believes that the FIS is still a valid and indispensable initiative that will support partnership arrangements by improving the production of credible reports and accountability.

The Committee therefore recommends:

That the Treasury Board Secretariat inform the Standing Committee on Public Accounts of the means and methods it plans to use to assist and encourage all federal government departments and agencies to implement the Financial Information Strategy (FIS) by the April 1, 2001, deadline, and that it provide that information by October 31, 2000;

That the Treasury Board Secretariat report to Parliament on the status of overall implementation of the Financial Information Strategy (FIS) on a regular basis through its Performance Report, beginning with the report covering the year ending March 31, 2000; and

That the Treasury Board Secretariat inform the Standing Committee on Public Accounts of the means it plans to use to encourage departments and agencies to include in their accountability documents plans and timetables for implementing the Financial Information Strategy (FIS), and that it provide that information by October 31, 2000.

Conclusion

The Committee acknowledges the government's efforts to correct the deficiencies brought to light by the audit of new governance arrangements, but is still deeply concerned, particularly about practices related to accountability. While the federal government may have legitimate reasons for seeking new, more flexible and more effective methods of delivering its programs and services to Canadians, it must ensure that parliamentary control is never undermined by that quest. The lack of full monitoring of these new governance arrangements cannot be tolerated given the large amounts of federal money involved. In the interest of sound administration and management of public funds, the federal government cannot allow this situation to continue and must act immediately on the recommendations made by the Auditor General of Canada and the Standing Committee on Public Accounts in order to stem the erosion of accountability to the Parliament of Canada.

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos 14, 18 and 28)* is tabled with this report.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FOURTEENTH REPORT

The Standing Committee on Public Accounts has considered Chapter 4 of the April 2000 Report of the Auditor General of Canada (*Indian and Northern Affairs Canada -- Elementary and Secondary Education*) and the Committee has agreed to report the following:

Introduction

The federal government of Canada has assumed direct responsibility for the provision of education to First Nation communities since the 1600s. Since the 1950s, however, this responsibility has gradually been delegated to the First Nations and the provinces. The *Constitution Act of 1867*, as well as various statutes, treaties, agreements and policies, gives to the federal government of Canada the jurisdiction over First Nations and the lands reserved for them. While education is an exclusive provincial jurisdiction, the federal government is empowered under the provisions of several treaties to deliver education services to On-reserve students.

The Department of Indian and Northern Affairs Canada (INAC) has developed a system of funding agreements under which the Department continues to fund elementary and secondary education for On-reserve students. The federal government applies provincial standards to education provided to On-reserve students whether they are enrolled in reserve, provincial or federal schools.

Both the federal government and the First Nations accord high priority to education. The quality of education for First Nations will have significant repercussions on the development of individuals, the survival of First Nation cultures, and the social and economic status of First Nation communities.

To ascertain the department's success in carrying out its mandate on elementary and secondary education for the First Nations, the Committee decided to examine Chapter 4 of the Auditor General of Canada's April 2000 Report. On May 18, 2000, the Committee met to consider the evidence. Representing the Office of the Auditor General of Canada were Mrs. Sheila Fraser (Deputy Auditor General), and Mr. Grant Wilson (Principal, Audit Operations Branch). The witnesses representing the Department of Indian and Northern Affairs Canada were Mrs. Shirley Serafini (Deputy Minister), Mr. Dennis Wallace (Associate Deputy Minister) and Mr. Bob Coulter (Director, Employment and Human Development).

Observations and Recommendations

In her opening statements, Mrs. Fraser indicated to the Committee that whether INAC delivers education services directly to On-reserve children or delegates the provision of these services through special agreements with the First Nations, the Department retains the responsibility for the cost and appropriateness of education to First Nations. Against this background, the audit asked the following questions. Does the department have a reasonable assurance that it is meeting its objectives for education? Is the department exploiting existing opportunities for operational improvements? Has the department demonstrated accountability for results? While INAC has already undertaken initiatives to deal with certain issues, there are still several fundamental questions that remain unresolved.

First, what role INAC ought to play in the delivery of educational services to First Nations? The Department still hasn't fully articulated its role in education, despite the fact that it has been devolving education to First Nations for at least 30 years. Clarification is required to assist the Department in determining whether its existing capacity and resources are sufficient to achieve its objectives.

The audit also noted a serious gap in academic achievement of First Nation's On-reserve students with respect to the overall population of students. The Department has been aware of this situation for over a number of years, yet has failed to take any prompt and effective remedial action.

Finally, while INAC collects some basic data on education, yet it still has not developed indicators of performance and of results to demonstrate accountability and to provide assurance that it is achieving its objectives.

There is also a need for operational improvements of the funding agreements to the First Nations, including how the Department administers education funding. Most notably, collect more relevant cost data, better management of funding arrangements, closer and more frequent consultations with First Nations in order to develop better tailored curriculum and delivery instruments, and obtain and use school evaluations to assess overall school performance and identify school specific issues.

The Deputy Minister, Mrs. Shirley Serafini, assured the Committee that INAC is determined to act on the Auditor General's recommendations. There is recognition of the concerns raised in the audit, notably the need to clarify the Department's role in delivering education to First Nations, to develop and use appropriate performance measures and to strengthen the Department's operational importance.

The Committee members expressed concern about the Department's lack of clearly defined role in the delivery of education services to First Nations. While the Department's professed goal for education is to assist First Nations achieve their needs and aspirations, there remains considerable ambiguity and inconsistency in the way INAC carries out this mandate. Some of INAC's departmental regions consider their major responsibility as that of providing a funding service, while other regions view their role more in the light of developing education programs. As its relationship with First Nations evolve, the Department will eventually have to decide whether its role should be that of a funding agency, a monitor, an education standards-setting body, capacity builder, advisor or co-ordinator – or all, some or none of these.

The Department must clarify and formalise its role and responsibilities. Otherwise, its accountability for results is weakened and assurances that education funding is being spent in an appropriate fashion are unclear at best. This leads the Committee to recommend the following:

That Indian and Northern Affairs Canada immediately undertake a comprehensive review of its role in education in order to better achieve its objectives and discharge its responsibilities to First Nations. And at the completion of this review, provide a clear and formal statement of its roles and responsibilities in its *Report on Plans and Priorities* and *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001; and

That Indian and Northern Affairs Canada, when defining its mandate, take into account the role and accountabilities of other parties, clearly define the deliverables it must produce and its accountabilities for results, and communicate its roles and responsibilities to all other parties.

Given that over the last 30 years, the Department has been devolving to many of the First Nations the responsibility for the delivery of education services, the Committee enquired whether INAC undertook evaluations to determine if First Nations possessed the capacity to deliver education services directly to its population.

The audit found that funding agreements did contain some provisions to evaluate capacity of First Nations through self-assessments but these have been executed on an inconsistent basis. The Committee therefore recommends:

That Indian and Northern Affairs Canada, before devolving education services to First Nations, first analyse their capacity to undertake these new responsibilities, identify areas of weakness, and develop joint action plans with implementation timetables to ensure that the First Nations possess the capacity to assume these new responsibilities in delivering education services.

The Committee is very worried about the significant gap in educational achievement between Indian students and non-Indian students. Between 1991 to 1996, the high-school completion rates of On-reserve students rose from 31 percent to 37 percent. This modest improvement in aboriginal educational achievement still compares poorly with the high-school completion rate of 65 percent for the overall Canadian population in 1996. At current rates of improvement, it would take approximately 23 years to close the gap between Indian and Non-Indian high-school completion rates.

This gap in educational achievement between Indian and Non-Indian student populations cannot be allowed to persist. Poor academic performance will very likely affect the current well being of On-reserve students, as well as their socio-economic standing in the future. In order to prevent further academic decline, the Committee strongly urges the Department to immediately undertake the required corrective measures. Thus it recommends that:

That Indian and Northern Affairs Canada, in collaboration with First Nations, immediately develop action plans together with implementation timetables in order to close the education gap between On-reserve student population and the overall Canadian student population. And that it reports the progress of these initiatives in its *Departmental Performance Reports* beginning for the fiscal year ending March 31st, 2001;

That Indian and Northern Affairs Canada develop comparative performance indicators of academic achievement between On-reserve students and students of the overall Canadian population, and use these indicators to measure the progress of the action plans in closing the education gap; and

That Indian and Northern Affairs Canada report the progress of these actions plans to close the education gap in their *Departmental Performance Report*s beginning for the fiscal year ending March 31st, 2001.

In terms of the Department's management and administration of the On-reserve educational programs, the Committee noted that there were considerable opportunities for improvement in the development of performance and results indicators, in the collection and quality of cost information, and in updating funding allocation formulas:

That Indian and Northern Affairs Canada immediately develop performance and results indicators, together with performance targets of achievement that are in accordance to its stated objectives, and that it report the progress of this initiative in its *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001;

That Indian and Northern Affairs Canada immediately develop an action plan to improve the collection of cost information in order to obtain accurate, relevant and comparable per-student costs and implement the required cost analysis to assist the Department in its resource allocation decisions. That the progress of this initiative be reported in the *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001; and

That Indian and Northern Affairs Canada immediately develop an action plan together with a timetable for implementation to update its regional funding formula. That the progress of this initiative be reported in the *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001.

The Committee was clearly preoccupied about the many issues that needed to be addressed for the Education Funding Agreements. The audit uncovered many shortcomings with regard to their management and administration, specifically the lack of funding agreements, the resolution of outstanding funding disputes between First Nations and provincial authorities, the monitoring of the implementation of the agreements, etc.:

That Indian and Northern Affairs Canada immediately develop and implement action plans to address all the shortcomings in their Education Funding Agreements with First Nations, and that it report on the progress of these action plans in its *Departmental Performance Reports* beginning for the fiscal year ending March 31st, 2001; and

That Indian and Northern Affairs Canada, in collaboration with First Nations and provinces, develop monitoring and consultation mechanisms to ensure proper feedback and accountability between all involved parties. And that the Department report on the progress of this initiative in its *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001.

One particular area of concern was the outstanding issue of the disclosure of financial statements by First Nations. When a member of the Committee enquired on the availability of financial information on education programs, INAC officials indicated that they receive from First Nations audit reports on revenue and expenditures on a program basis but that overall consolidated audits are not made public. This state of affairs is the result of a 1988 court decision, which ruled that financial statements of First Nations could not be disclosed to the public because their consolidated financial statements often contain financial reports on businesses owned by First Nations.

The INAC officials further indicated that the Minister is currently working with First Nations and certified general accountants to find ways of improving the disclosure of financial information of First Nations, particularly with regards to the receipt and disposition of public funds. Specifically, the intent of these discussions would be to develop schedules that would show federal contributions and disposition of these funds by the First Nations.

The Committee acknowledges the current efforts and makes the following recommendation:

That Indian and Northern Affairs Canada include provisions in all future funding agreements that require the disclosure of First Nations financial statements relating to the receipt and disposition of funds provided by the federal and provincial governments of Canada.

Conclusion

The Committee is very concerned about the state of elementary and secondary education for the First Nations. The observed gap in academic achievement between On-reserve high school students and the overall population of high school students cannot be tolerated. This situation must not be allowed to persist, otherwise, it will not augur well for the current and future well being of the First Nations in particular, and for Canada in general.

The Committee is dissatisfied by the Department's "hands-off" approach in the management and administration of the education programs and special funding agreements. While decentralisation or devolution of responsibilities may be sound in principle, it must be accompanied with clearly defined roles and responsibilities to which all parties agree to comply, together with proper monitoring and consultation mechanisms to ensure feedback and prevent disagreements from becoming unmanageable.

There is broad understanding of the issues involved, the Committee expects the Department to rapidly demonstrate real progress in the resolution of the many shortcomings identified by the audit.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 25 and 28)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

APPENDIX D

REPORT ON THE AUDIT OF THE PRESIDENT OF THE TREASURY BOARD'S REPORT TO PARLIAMENT

TABLINGS IN PARLIAMENT FOR PARENT CROWN CORPORATIONS: ANNUAL REPORTS AND SUMMARIES OF CORPORATE PLANS AND BUDGETS

The *Financial Administration Act* requires the President of the Treasury Board to lay before each House of Parliament a report concerning the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations subject to the reporting provisions of Part X of the Act.

The report on these tablings allows Parliament to hold the appropriate ministers (and, ultimately, the Crown corporations) accountable for providing, within the relevant statutory deadlines, the information required under the *Financial Administration Act*. Accordingly, the report is required to indicate the time at, before, or within which the annual reports and the summaries of corporate plans, capital budgets and operating budgets (and amendments to them) were required to be tabled before each House during the reporting period, and the time they were actually tabled. The report on tablings is the responsibility of the President of the Treasury Board and is included in his/her annual report to Parliament, *Crown Corporations and Other Corporate Interests of Canada*, which is required to be tabled not later than 31 December (not tabled for 2000 at time of going to press).

As required by subsection 152(2) of the *Financial Administration Act*, I have audited the information contained in the President of the Treasury Board's report on tablings for the year ended 31 July 2000. Further, I am required to report on this audit in my annual Report to the House of Commons.

I conducted my audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the report on tablings is free of significant misstatement. My audit included examining, on a test basis, the systems and procedures used by the Treasury Board Secretariat to monitor the tabling of the summaries and annual reports in each House of Parliament, and the information contained in the report. Accordingly, it included such tests and other procedures as I considered necessary in the circumstances.

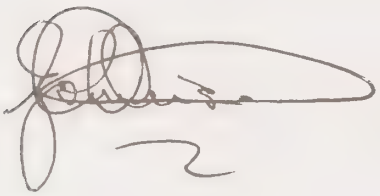
In my opinion, the information contained in the report on tablings is accurate, in all significant respects, in accordance with the description of the Deadlines for Tabling in Parliament disclosed in the report.

The following paragraphs are intended to highlight certain information that I believe may be of interest to members of the House of Commons and that are not highlighted or disclosed in the report on tablings in its current format.

This year's report on tablings identifies 78 instances of documents that were tabled late. This represents an increase in the number of late tablings from previous years, particularly with respect to documents that were due to be tabled for the first time in the year covered by the report. We have encouraged the Treasury Board Secretariat to investigate the reasons for this increase.

The report does not disclose that, in twenty-three instances, corporate plans were approved by the Governor in Council after the beginning of the period covered by the plans. In nine of those instances, plans were approved more than two months after the beginning of the period covered.

In past years, I have reported that only the first year of some corporations' five-year corporate plans had been approved and that this was not disclosed in the reports on tablings. This year, the report on tablings discloses the fact that some corporate plans were approved by the Governor in Council for only their first year.



John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada
Ottawa, Canada
22 November 2000

APPENDIX E

The Costs of Crown Corporation Audits Conducted by the Office of the Auditor General of Canada

Section 147 of the *Financial Administration Act* requires that the Office disclose the costs of preparing audit reports on all Crown corporations other than those exempted under section 85 of the Act (see Exhibit 1). An audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant.

The Office is also required by section 68 of the *Broadcasting Act* to report the cost of any audit report on the Canadian Broadcasting Corporation. For the fiscal year ended 31 March 2000, the full cost of the annual audit report was $421,035.

Section 138 of the *Financial Administration Act* requires that, at least once every five years, each parent Crown corporation named in Schedule III of the Act undergo a special examination. This is distinct from the requirement for the annual audit of financial statements.

The objective of a special examination is to determine whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that:

- assets have been safeguarded and controlled;
- financial, human and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 1999-2000 the Office completed the special examination of twelve Crown corporations. The costs were:

Canada Deposit Insurance Corporation	$557,219
Canada Development Investment Corporation (Joint Examiner)	$62,401
Enterprise Cape Breton Corporation	$276,600
Export Development Corporation	$847,708
Fresh Water Fish Marketing Corporation	$228,743
Marine Atlantic Inc.	$387,965
National Gallery of Canada	$483,776
National Museum of Science and Technology	$547,234
Old Port of Montreal Corporation Inc.	$355,393
Queens Quay West Land Corporation	$28,617
Royal Canadian Mint	$603,974
Standards Council of Canada	$301,829

Exhibit 1

Costs of Preparing Annual Audit Reports for Fiscal Years Ending on or before 31 March 2000

Crown Corporation	Fiscal Year Ended	Cost Incurred
Atlantic Pilotage Authority	31.12.99	$ 60,217
Atomic Energy of Canada Limited (Joint Auditor)	31.03.00	266,175
Business Development Bank of Canada (Joint Auditor)	31.03.00	301,271
Canada Deposit Insurance Corporation	31.03.00	84,548
Canada Development Investment Corporation (Joint Auditor)	31.12.99	44,934
Canada Lands Company Limited (Joint Auditor)	31.03.00	203,237
Canada Mortgage and Housing Corporation (Joint Auditor)	31.12.99	275,293
Canadian Commercial Corporation	31.03.00	100,013
Canadian Dairy Commission	31.07.99	104,820
Canadian Museum of Civilization	31.03.00	80,067
Canadian Museum of Nature	31.03.00	77,118
Cape Breton Development Corporation	31.03.00	234,455
Defence Construction (1951) Limited	31.03.00	49,505
Enterprise Cape Breton Corporation	31.03.00	96,140
Export Development Corporation	31.12.99	454,399
Farm Credit Corporation	31.03.00	323,345
Federal Bridges Corporation Ltd.	31.03.00	42,683
Freshwater Fish Marketing Corporation	30.04.99	71,517
Great Lakes Pilotage Authority, Ltd.	31.12.99	48,897
Laurentian Pilotage Authority	31.12.99	60,485
Marine Atlantic Inc.	31.12.99	205,089
National Capital Commission	31.03.00	204,639
National Gallery of Canada	31.03.00	94,568
National Museum of Science and Technology	31.03.00	74,359
Old Port of Montreal Corporation Inc.	31.03.00	120,120
Pacific Pilotage Authority	31.12.99	39,458
Petro-Canada Limited	31.12.99	14,232
Queens Quay West Land Corporation	31.03.00	33,785
Royal Canadian Mint	31.12.99	245,254
Seaway International Bridge Corporation Ltd.	31.12.99	40,435
The Jacques Cartier and Champlain Bridges Incorporated	31.03.00	61,943
Standards Council of Canada	31.03.00	38,504
VIA Rail Canada Inc. (Joint Auditor)	31.12.99	230,545

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

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Report of the Auditor General of Canada to the House of Commons

Chapter 35
Sustainable Development Strategy for the Office of the Auditor General

December 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 35

Sustainable Development Strategy for the Office of the Auditor General



December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 35

Sustainable Development Strategy for the Office of the Auditor General

Table of Contents

	Page
Summary	35-5
Introduction	35-7
A sustainable development strategy — helping to turn words into action	35-7
Characteristics of our strategy	35-7
Who should read this strategy?	35-8
The Role of the Office of the Auditor General and the Commissioner of the Environment and Sustainable Development	35-8
The Office's vision and mission	35-10
Our resources and our organization	35-10
Our priorities	35-10
Our influence and impact on the environment and sustainable development	35-10
International activities	35-11
The Commissioner of the Environment and Sustainable Development	35-13
Experience Gained From Our First Strategy	35-14
Our management of sustainable development	35-14
Our performance	35-16
Some performance was not measured	35-16
What we have learned	35-16
Our Second Strategy	35-18
Updating our strategy and our performance framework	35-20
Selecting the right combination of objectives/activities/indicators/targets	35-20
Linking our sustainable development action plan to other activities in the Office	35-21
Issues associated with our three core activities	35-22
Specific issues that will require additional attention during the next three years	35-22
Working with others	35-22
On the path toward sustainable development	35-22
Exhibits	
35.1 What Do We Mean by Sustainable Development?	35-7
35.2 Our Sustainable Development Strategy	35-9
35.3 Our Sustainable Development Management Process	35-14
35.4 Examples of Performance Indicators	35-15
35.5 Significant Findings From the Management Review of Our First Sustainable Development Strategy	35-17
35.6 Analyzing Reasons for Unexpected Changes	35-19
35.7 The Social Dimension of Sustainable Development	35-19
35.8 Streamlining Our Second Strategy	35-20
35.9 Key Recommendations of the Management Review	35-21

Page

Appendices

A.	Strategy Team	35-23
B.	Internal Consultations Summary: June and July 2000	35-24
C.	2001-2004 Action Plan for Sustainable Development	35-25
D.	Steps in Developing Our Second Strategy	35-29

Sustainable Development Strategy for the Office of the Auditor General

Summary

35.1 In our second sustainable development strategy, we commit to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that our own operations are managed in an environmentally responsible manner.

35.2 We have made good progress in implementing our first strategy, but there are several areas that require improvement. Our biggest challenge is to further integrate environmental and sustainable development issues into our audit work. We need to better document changes made to our action plan, and we must also update and complete the implementation of our environmental and sustainable development training plan.

35.3 Our experience with the first strategy has allowed us to simplify our approach to managing sustainable development issues. We have reduced the number of goals and objectives and the indicators of performance that we use to measure our progress; and we have linked our actions to our planned results. From our experience with the first strategy, we learned that we needed to balance our environmental aspirations with other factors, such as increasing the quality of working life.

35.4 During the past three years our Office, including the Commissioner of the Environment and Sustainable Development, has reported our findings to Parliament on subjects that include the government's management of smog, toxic substances, climate change, hazardous wastes, biodiversity and sustainable fisheries. We have reviewed the implementation of the first round of departmental strategies. Finally, we have assessed the performance of departments and agencies and provided guidance on how they can improve their management of environmental and sustainable development issues and reduce the environmental impacts of their own operations.

35.5 In the next three years, we will continue to perform audits of environmental issues and to follow up on our previous audits. In 2001 we plan to report on an audit of the way the federal government manages its responsibilities for selected sustainable development issues that affect the Great Lakes and St. Lawrence River basin.

35.6 Following amendments to the *Auditor General Act* in 1995 that formally incorporated environmental and sustainable development issues into our mandate, 24 federal departments and agencies tabled their first sustainable development strategies in the House of Commons in December 1997. Another four departments and agencies, including the Office of the Auditor General, voluntarily submitted strategies. The *Auditor General Act* requires that the strategies be updated every three years, and the second round of strategies was due to be tabled by December 2000 if Parliament were sitting.

35.7 The framework for our strategy focusses on three major areas: our audit work, our day-to-day operations, and our human resources. We believe it is in our audits and studies of federal organizations that we have the greatest impact.

35.8 Our sustainable development strategy aims to promote sustainable development among parliamentarians, federal organizations and Canadians in general. More specifically, our strategy tells parliamentarians how we integrate environmental and sustainable development considerations into our business as a legislative audit office, and how we measure the success of our efforts.

35.9 In the past three years, our Office has brought many environmental and sustainable development issues to the attention of Parliament and federal organizations through our financial audits, special examinations and

value-for-money audits, including our reviews of the sustainable development strategies. We have provided guidance through studies and other publications, including *Moving Up the Learning Curve*, a 1999 report by the Commissioner of the Environment and Sustainable Development. That report set out what the Commissioner expected to see in the second round of sustainable development strategies.

35.10 This chapter sets out our own second strategy. It includes:

- a description of our Office — our mandate, the work we do and the impact that we aspire to achieve;
- a summary of our performance and the lessons learned from our first strategy; and
- our objectives, indicators of performance and our planned results for the next three years.

Introduction

A sustainable development strategy — helping to turn words into action

35.11 A sustainable development strategy presents an organization's objectives and plans of action to advance sustainable development. Exhibit 35.1 discusses the meaning of "sustainable development."

35.12 Sustainable development strategies are intended to help departments and agencies broaden their perspective on what they do and how they do it — to take environmental, economic and social considerations into account more systematically in their policies, programs and operations. The intent is to help turn sustainable development from words into action. Sustainable development strategies provide benchmarks against which departments can measure their progress.

35.13 This field has seen considerable progress over the past decade. International organizations like the Organisation for Economic Co-operation and Development (OECD) and the International Organization for Standardization (ISO) have increased our understanding of the concept of sustainable development. Organizations are better able to manage for sustainable development and to measure the results of their efforts.

35.14 Organizations need to view sustainable development strategies as an ongoing cycle of action, learning from others' experience through a participatory approach, and using that learning to improve policies and programs. They need to put more emphasis on the participation and learning than on the production of the document that describes the strategy.

Characteristics of our strategy

35.15 Our sustainable development strategy is designed to be comprehensive, results-oriented and developed through consultation:

- **comprehensive** because it covers the environmental and sustainable development aspects of our audit work and our day-to-day operations;
- **results-oriented** because we have identified the actions we need to take and the indicators we will use to measure performance toward each of our sustainable development objectives;
- **developed through consultation** within the Office and with our clients. Obtaining different points of view was very useful to us (see appendices A and B).

35.16 To successfully implement our strategy, we will require the continued support, involvement and commitment of senior management. Staff members must also adopt the strategy as their own and identify their part in the activities suggested for achieving it. With proper

Sustainable development strategies provide benchmarks against which departments can measure their progress.

Exhibit 35.1

What Do We Mean by Sustainable Development?

By sustainable development, we mean "development that meets the needs of the present without compromising the ability of future generations to meet their needs" (World Commission on Environment and Development, Our Common Future, 1987).

Sustainable development is a constantly evolving concept based on integrating social, economic and environmental concerns into the activities of private and public organizations.

Progress toward sustainable development requires an integrated approach to planning and decision making — an approach that involves evaluating economic and social solutions on the basis of their effects on the environment and natural resources, and ecological solutions on the basis of their effects on the economy and society.

oversight by management and with the commitment of individuals, words can be turned into action and sustainable development can be integrated into our activities.

35.17 This Office has considered environmental and sustainable development issues in our audits for well over 10 years. Helping to improve the federal government's performance in protecting the environment and promoting sustainable development is one of the Office's five priorities for 2000 to 2003 (see paragraph 35.27).

35.18 Although the Office is not required by legislation to prepare a sustainable development strategy, we have decided to do so voluntarily and to present it for tabling in the House of Commons. We believe that a sustainable development strategy is a valuable planning tool that will help us to build environmental and sustainable development considerations into the way we conduct our business. It will also assist us in understanding the challenges faced by other departments as they develop and implement their strategies.

Our strategy is a valuable planning tool that will help us to build environmental and sustainable development considerations into the way we conduct our business.

Who should read this strategy?

35.19 The Office's sustainable development strategy is directed to four main groups:

- Members of Parliament, our main clients, who can hold the government to account for its decisions and actions.

- Our staff, on whom the success of this strategy depends. They must be comfortable with the strategy and able to apply it to their activities.

- Federal government employees and managers, with whom the Office maintains very close contact and who are responsible for integrating sustainable development issues into the policies, programs and operations of their organizations.

- Canadian taxpayers, whom the members of Parliament represent and for whom our staff and government employees work.

The Role of the Office of the Auditor General and the Commissioner of the Environment and Sustainable Development

35.20 The first Auditor General was appointed in 1878, primarily to provide assurance to the Government of Canada that moneys were being spent as approved. In 1977, the role of the Office was expanded to audit whether the government and the people of Canada were receiving value for money spent on government programs.

35.21 In 1995, the *Auditor General Act* was amended to create the position of Commissioner of the Environment and Sustainable Development, reporting to the Auditor General. The amendments extended the scope of our audit work to include reporting cases of spending by government without due regard to the environmental effects. The environmental and sustainable development issues to which we can draw attention are the issues faced by the government departments and organizations we audit. We also learn through our involvement with various international organizations and contribute to the advancement of sustainable development knowledge.

35.22 Our Office is different from departments and agencies by virtue of our independence from the government and our reporting relationship to Parliament. Our independence is assured by a broad legislative mandate, freedom from certain controls over our budget and staff, and a 10-year term for the Auditor General. We do not develop policies or manage programs. Instead, we determine whether the government's programs and policies

Exhibit 35.2

Our Sustainable Development Strategy

Office of the Auditor General
Sustainable Development Goal

The Office of the Auditor General is committed to helping the federal government continually improve its management of environmental and sustainable development issues, and to ensuring that its own operations are managed in an environmentally responsible manner.

In our audit work:

- We provide information, advice, and assurance to parliamentarians and others on the federal government's performance in managing environmental and sustainable development issues.
- We support federal, territorial and international organizations in their efforts to integrate environmental and sustainable development considerations into their decision making on policies, programs and operations.
- We administer a process (the petition process) that provides for Canadians to bring their environmental and sustainable development concerns to the attention of the Government of Canada in the form of letters or petitions.

Our objectives:

1. To incorporate the environment and sustainable development as an integral part of our audit work.
2. To help strengthen the capacity of federal, territorial and international organizations to continually improve their management of environmental and sustainable development issues and delivery of related programs.
3. To monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns.

In our day-to-day activities:

- We optimize the use of natural resources and minimize the negative environmental impacts of the OAG's day-to-day operations.

Our objectives:

1. To continually improve our Sustainable Development Management Process (SDMP).
2. To reduce consumption and waste.
3. To purchase, provide and use goods and services in an environmentally responsible manner.

In our management of human resources:

- We support activities that recognize our employees as our greatest assets in pursuing our sustainable development goals.

Our objective: To enhance the awareness and capability of Office staff to incorporate environmental and sustainable development issues in their audit work, the Office's day-to-day operations and society at large.

are administered in a responsible, honest and productive manner.

The Office's vision and mission

35.23 The Office's strategic framework includes vision and mission statements that guide our work.

> **Vision.** We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.
>
> **Mission.** The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

35.24 These statements guide all of our work, and from them flows the goal for our sustainable development strategy (see Exhibit 35.2).

Helping to improve the federal government's performance in protecting the environment and promoting sustainable development is an Office priority.

Our resources and our organization

35.25 Reflecting the diverse requirements of our audit work, our staff includes qualified accountants as well as specialists with postgraduate degrees in other disciplines, including engineering, law, statistics, sociology, history, the environment, and economics. Most audit staff work at the head office in the National Capital Region. Regional offices are located in Vancouver, Edmonton, Winnipeg, Montreal and Halifax. For 2000-01, the Office's budget is $54 million and 520 employees.

35.26 The Auditor General presents his annual report and up to three additional periodic reports each year to the Speaker of the House of Commons. The Commissioner, on behalf of the Auditor General, reports annually to the House on various environmental and sustainable development issues. These include the extent to which departments and agencies have met the objectives and acted on the plans set out in their sustainable development strategies. We also report our work in other places and forms, according to the specific legislation of the government entities that we audit. Our reports, as well as other information concerning the Office, are accessible on our Web site at http://www.oag-bvg.gc.ca.

Our priorities

35.27 For 2000 to 2003 the Office has five priorities:

- Help improve the government's finances and information on its financial condition.
- Stimulate advances in accountability concepts and improve accountability practices in government.
- Improve the quality of financial management in government.
- Contribute to necessary changes in the public service.
- Help improve the federal government's performance in protecting the environment and promoting sustainable development.

35.28 We address each of these priorities in our audit work. The fifth priority is also addressed through our day-to-day activities and our human resources, and in the goal of this strategy.

Our influence and impact on the environment and sustainable development

35.29 Through our various audit products, we can influence parliamentarians and federal and territorial departments and organizations, as well as international organizations, on environmental and sustainable development matters. Our products include value-for-money audits, special examinations of Crown corporations,

financial attest audits, and our assessment of sustainable development strategies.

- **Value-for-money (VFM) audits.** We examine whether the government's policies, programs and operations are achieving their intended results, including results that affect the environment and sustainable development. During the past three years our Office, including the Commissioner of the Environment and Sustainable Development, has reported our findings to Parliament on subjects that include the government's management of smog, toxic substances, climate change, hazardous wastes, biodiversity and sustainable fisheries. We also consider whether departments that have tabled sustainable development strategies have included appropriate environmental and sustainable development issues in their policy development and program delivery.

- **Special examinations of Crown corporations.** Although not an explicit requirement of the *Financial Administration Act*, during special examinations of Crown corporations we determine whether the systems and practices in place are appropriate for sound management of the corporation's environmental activities. This determination depends on the types of activities the corporation is involved in and their potential impact on the environment. For certain Crown corporations, environmental considerations are integral to their continued well-being.

- **Financial attest audits.** We determine whether environmental costs and liabilities were taken into account when preparing the financial information provided by the Government of Canada, the territorial governments, Crown corporations and certain entities, in accordance with the applicable accounting standards.

- **Assessment of sustainable development strategies.** Annually, the Commissioner for the Environment and Sustainable Development assesses the extent to which departments and agencies have met the objectives and implemented the plans set out in their sustainable development strategies. Further information is provided in the section of this chapter on the Commissioner of the Environment and Sustainable Development (see paragraph 35.34).

35.30 We assess our own ability to conduct high-quality audits that address significant topics and contribute to making a difference. The difference we seek relies on many other parties inside and outside government, and this complicates the task of attributing specific results to our audits. Many share a commitment to good government and an improved environment, and it is really through the co-operation and participation of others that we are able to effect change.

Many share a commitment to good government and an improved environment, and it is really through the co-operation and participation of others that we are able to effect change.

35.31 The environmental impacts associated with our day-to-day operations are relatively limited. Our efforts are aimed at reducing our consumption and waste; purchasing, providing and using products and services in an environmentally responsible manner; and recycling secondary materials.

International activities

35.32 We contribute to the development and dissemination worldwide of international standards, best practices and training programs in various areas of accounting, auditing and reporting, through our involvement in the International Organization of Supreme Audit Institutions (INTOSAI), the Panel of External Auditors of the United Nations, and the audit of UN organizations. We also manage a fellowship program for senior auditors from national audit offices of developing nations. Finally, we audit the international activities of Canadian federal departments and agencies.

35.33 Our international activities help us to raise the awareness of environmental and sustainable development issues in the



Barrels kept on the grass without any secondary containment at CFB Cold Lake. From the Auditor General's 1999 Report, Chapter 13, National Defence - Hazardous Materials: Managing Risks to Employees and the Environment.



There are more and more cars on the highways and roads. From the 2000 Report of the Commissioner of the Environment and Sustainable Development, Chapter 4, Smog: Our Health at Risk.

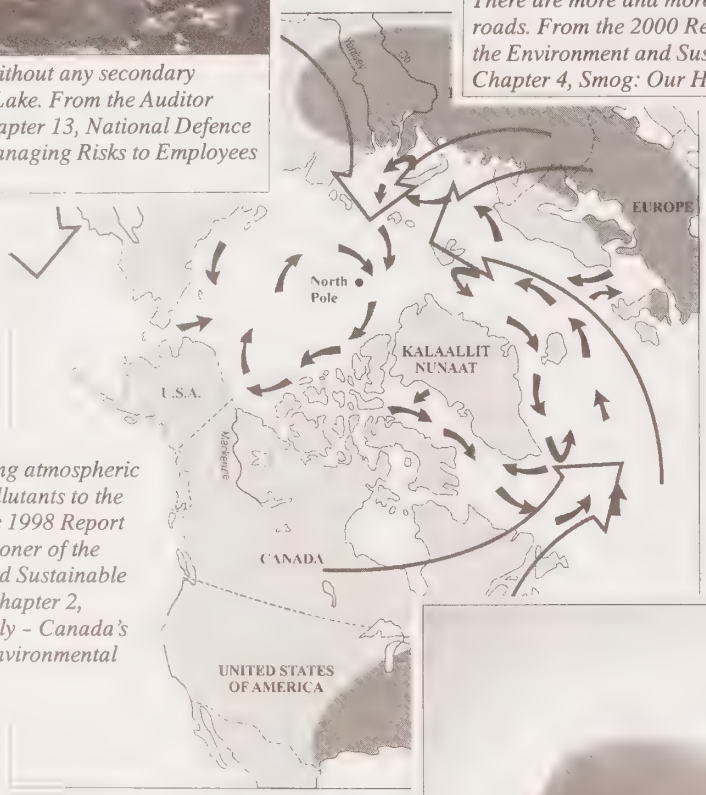


Diagram showing atmospheric migration of pollutants to the Arctic. From the 1998 Report of the Commissioner of the Environment and Sustainable Development, Chapter 2, Working Globally - Canada's International Environmental Commitments.



Canada is home to most of the world's polar bears and has a special stewardship role to play. From the 1999 Report of the Commissioner of the Environment and Sustainable Development, Chapter 6, Making International Environmental Agreements Work: The Canadian Arctic Experience.

Examples of sustainable development issues from our audits (see paragraph 35.29).

national audit offices of developing nations and in various international organizations.

The Commissioner of the Environment and Sustainable Development

35.34 The Commissioner of the Environment and Sustainable Development was first appointed by the Auditor General in 1996. The Commissioner's staff perform value-for-money audits, including audits of specific environmental policies and programs across the federal government. In addition, the Commissioner has the legislative responsibility to monitor and report, on behalf of the Auditor General, the federal government's progress toward sustainable development. This includes monitoring departments' and agencies' implementation of their strategies.

35.35 In December 1999, the Commissioner released the document, *Moving up the Learning Curve*, which set out what the Commissioner expected to see in the second round of sustainable development strategies, due to be tabled by December 2000 if Parliament were sitting.

35.36 The Commissioner expected that departments and agencies would focus their efforts on three areas in developing their second sustainable development strategies:

- **assessing** their first strategies — determining what the first strategy has achieved, what has changed, and what needs to be done differently — and making those assessments available in the consultations leading to the second strategies;

- strengthening the **planning** of strategies — drawing clear links between the departments' activities, the significant impacts of those activities and the priorities for action; and

- accelerating the development of the **management systems** needed to turn the strategies from talk into action.

> I believe that as the largest single enterprise in the country, the federal government can make a significant difference in Canada's prospects for sustainable development....The services and programs it provides contribute to the social, economic and environmental well-being of Canadians. Finally, as Canada's largest single employer, landlord and purchaser, the federal government can show leadership by managing its day-to-day operations in a sustainable manner.
>
> – Commissioner of the Environment and Sustainable Development, December 1999

The federal government can show leadership by managing its day-to-day operations in a sustainable manner.

35.37 The Commissioner is also responsible for monitoring departments' and agencies' replies to letters or petitions presented by Canadians on environmental and sustainable development issues (the petition process). The *Auditor General Act* requires ministers to respond to petitions within 120 days. Since 1997, we have monitored the responses to 21 petitions from Canadians.

35.38 There are specific results the Commissioner of the Environment and Sustainable Development would like to achieve in the years from 1999 to 2004, in particular:

- narrowing the gap between policy promises and performance, as demonstrated by examples of improvements in program implementation;

- strengthening co-ordination and integration, leading to instances of the elimination of barriers to co-operation; and

- improving information for Parliament, as demonstrated by examples of new information used by parliamentarians or decision makers.

Experience Gained From Our First Strategy

Our sustainable development management process allows us to track and measure our progress against our targets and objectives.

Our strategy encompasses the three core dimensions of our activities: our audit work, our day-to-day activities and the management of our human resources.

Our management of sustainable development

35.39 During the fall of 1998 we completed the first phase of our environmental management system, which we call our sustainable development management process (SDMP). Information on the SDMP and an explanation of all our related processes are accessible to all employees electronically (see Exhibit 35.3).

35.40 Our sustainable development management process is a way to ensure that we can track and measure our progress against our targets and objectives. It enables us to document systematically who is responsible for doing what and by when, in order to implement our sustainable development action plan for the years to come.

35.41 In preparing our first strategy, covering the period December 1997 until March 2001, we developed a framework that comprised three areas:

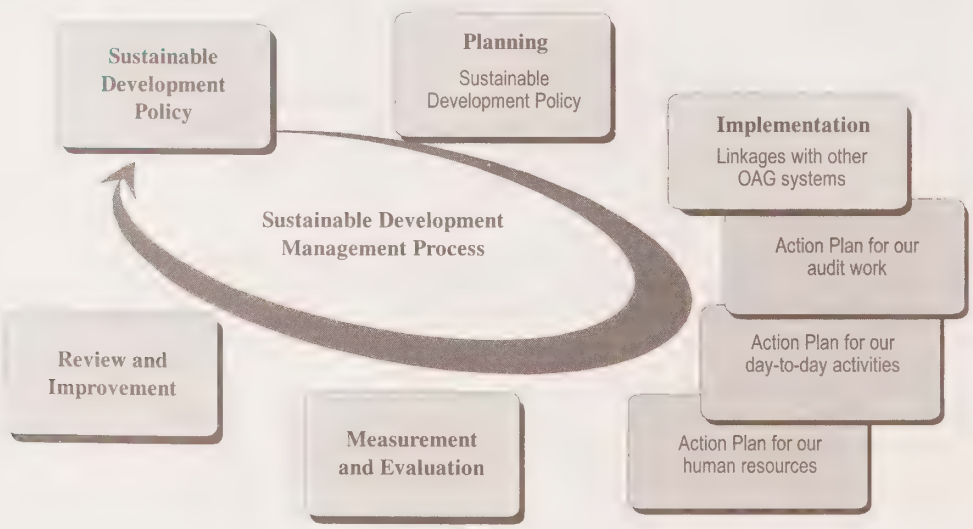
- our audit work, where we aim to encourage departments and others to act on environment and sustainable development issues;
- our day-to-day activities, where we aim to manage our own operations in an environmentally responsible manner; and
- the management of our human resources, where we aim to encourage our staff to behave in ways that contribute to achieving our environmental and sustainable development goal and objectives.

35.42 We identified objectives for each goal, and performance indicators for each objective. At the end of each year, we reviewed our objectives and indicators to ensure that they were still relevant and significant. Each year in our Departmental Performance Report, we reported on our performance as measured by eight key indicators.

35.43 Our first and second strategies both encompass the three core dimensions of our activities: our audit work, our day-to-day activities, and the management of our human resources. Exhibit 35.4 provides examples of specific performance indicators.

Exhibit 35.3

Our Sustainable Development Management Process



35.44 The Office's Sustainable Development Strategy Steering Committee was created to guide the development of our first strategy. It continues to monitor the Office's activities and, based on the performance achieved, to direct any necessary adjustments. It is chaired by a Deputy Auditor General and includes representatives of management in each significant function of the Office. The Secretary of the Steering Committee is the Sustainable Development Co-ordinator. This individual is responsible for leading our sustainable development activities, preparing performance reports and action plans, and leading the Core Working Group.

35.45 The Core Working Group comprises managers and professionals directly involved in audit work, in the Office's day-to-day activities, and in

Exhibit 35.4

Examples of Performance Indicators

Audit work

Percentage of recommendations related to environment and sustainable development on which satisfactory progress was made.

Percentage of federal organizations that comply with appropriate standards of practice for protecting the environment and promoting sustainable development.

Day-to-day activities

Paper consumption per employee.

Human resources

Percentage of audit staff who participated in sustainable development training sessions.



In our day-to-day activities, we use recycling stations for compost and other recyclables (see paragraph 35.41).

human resources management. This working group monitors performance for each indicator in the strategy and is also responsible for drafting the new strategy.

Employees have created an "Environmental Knowledge Network" to increase awareness and knowledge of environmental and sustainable development issues.

Our performance

35.46 Our contribution toward achieving our goals cannot easily be separated from that of our partners, nor can we measure external changes to the environment and sustainable development. However, we believe that our short- and medium-term objectives and their associated indicators provide a logical link between our activities and the results we aspire to achieve.

35.47 Each year, we have measured our progress against the indicators shown in our first strategy. In addition, during the third year of our strategy we commissioned an external management review of our approach to managing our strategy and our progress to that point.

35.48 Exhibit 35.5 shows our areas of success and areas that will require additional effort. We will address the review's recommendations in implementing our second strategy.

Key recommendations of the management review are addressed in our second strategy.

35.49 The review presented a series of recommendations. Key recommendations are addressed in the section Our Second Strategy (see paragraph 35.59), and are included in Exhibit 35.9. We considered and integrated the review's recommendations related to the indicators for our second strategy. We also prepared an action plan to address longer-term recommendations.

Some performance was not measured

35.50 While performing our annual review of our performance, we recognized several accomplishments that had not been measured as part of the actions or targets in our first strategy.

35.51 We do not track and measure all of the activities we undertake to promote and implement sustainable development. For example, employees with expertise or an interest in environmental and sustainable development issues have created an "Environmental Knowledge Network." They use it to exchange views and hold seminars or discussions that help to increase awareness and knowledge of environmental and sustainable development issues, for themselves and for their colleagues in the Office. Some of the sessions held during the period of the first strategy included Greening the Federal Budget; the Ecological Integrity of National Parks; and Equitable Trade.

35.52 In June 2000, our Office celebrated Canada's Environment Week by holding lunchtime seminars and an "Enviro-Millionaire" quiz, distributing trees for planting, and participating in a Commuter Challenge.

35.53 As a result of our participation, the Office achieved second place in its category in the Commuter Challenge — a national competition to promote environmentally responsible and healthy alternative modes of transportation. We received many positive comments from staff members who had fun while gaining knowledge and increasing their awareness of environmental and sustainable development issues.

What we have learned

35.54 Our experience during the first three years guided us in preparing our next strategy. While we have made good progress and are moving in the right direction, considerable work remains.

35.55 The first lesson we learned was that our original strategy was too complicated. It was not easy for employees to remember our goals. And, like many departments, we had included too many objectives and targets.

35.56 We found it a challenge to fully integrate environmental and sustainable development issues into our audit work. We conducted an internal review of whether the planning of value-for-money audits considered environmental and sustainable development issues. This review provided evidence that we need to continue focussing our efforts in this area while revising our performance measurement. We are changing the way we plan our audits to ensure that these issues are included, but the changes are not yet complete and their results have not been measured.

We found it a challenge to fully integrate environmental and sustainable development issues into our audit work.

Exhibit 35.5

Significant Findings From the Management Review of Our First Sustainable Development Strategy

	Successes	Need for Improvement
Audit work	• Significant overall progress in meeting the goals and objectives. Strategy addresses the most significant sustainable development issues faced by the Office. • Many internal procedures changed to integrate environment and sustainable development into planning process for the different products (value-for-money audits, financial audits, and special examinations). • Helped federal organizations strengthen their capacity. • Tracked the petition process.	• Despite a good integration of the environmental component, more work was needed. • Most targets for audit work were not met or had not been set.[1]
Day-to-day activities	• Implemented our Sustainable Development Management Process • Minimized negative environmental impacts of day-to-day activities: reduced paper consumption, promoted integration of significant environmental aspects into building maintenance and refit activities. • Developed a procedure to classify environmental characteristics of regularly stocked consumable products and completed an inventory.	• Did not meet our commitments to green our purchases and encourage the use of environmentally responsible transportation for audit work.
Human resources	• Initiated training and awareness-raising activities related to environment and sustainable development issues. For example, by March 2000, 42 percent of audit staff had attended a session, Introduction to Environment and Sustainable Development. • Completed two EnviroSurveys - questionnaires and self-assessments completed by staff members.	• Progress was not tracked against the environment and sustainable development training plan.

Note: [1] The management review was conducted prior to our year-end report on performance. As in previous years, the final report showed that most targets were met.

Analyzing the reasons for unexpected changes can help in taking quicker corrective action.

35.57 For certain indicators in our first strategy, we found that we could not influence behaviour as we had anticipated. An example is encouraging the use of environmentally responsible transportation for audit work. Encouraging less frequent travel home while on audit assignments does have a beneficial impact on the environment, but detracts from the employee's quality of life. For this reason the indicator was modified for our second strategy.

35.58 Analyzing the reasons for unexpected changes can help in taking quicker corrective action. For example, Exhibit 35.6 shows how we were able to change our approach to reducing paper consumption.



In June 2000, our Office achieved second place in its category in the Commuter Challenge, a national competition to reduce greenhouse gas emissions by promoting healthy alternatives to single-occupant vehicles (see paragraph 35.53).

Our Second Strategy

35.59 Our second strategy consists of a goal, objectives and an action plan. Our goal is the following:

> The Office of the Auditor General is committed to helping the federal government continually improve its management of environmental and sustainable development issues, and to ensuring that its own operations are managed in an environmentally responsible manner.

We will accomplish this goal by working toward objectives that address our audit work, our day-to-day activities and the management of our human resources (see Exhibit 35.2). We will implement our objectives using the action plan shown in Appendix C.

35.60 To design our second strategy, we began by assessing the results of our management review. Then we conducted comprehensive internal consultations, followed by analysis of our first strategy's goals, objectives, measures and indicators, to ensure that our second strategy clearly linked the measures with their intended results. We compared them with measures adopted by similar organizations handling similar issues. For example, we considered a federal government guidance document, *Sustainable Development in Government Operations: A Co-ordinated Approach* (Web site: www.ec.gc.ca). We sought advice from eight parliamentarians and nine departments and agencies; and developed a detailed communication plan for the new strategy. The steps in developing our second strategy are shown in Appendix D.

35.61 Implementing our first strategy included setting up a suitable management system. This was our sustainable development management process

(SDMP), to assign responsibilities and track our progress (see Exhibit 35.3). We will update the SDMP with revisions made for our second strategy.

35.62 In considering the scope of our second strategy, we decided to keep the emphasis on the environmental dimension of sustainable development rather than on the social or economic dimensions. This decision was based on two factors. First, much of our past audit work has concentrated on the economic and social aspects of the government's policies and programs. Second, the Office has other structures in place that address certain aspects of sustainability as it affects our staff, including employment equity, a mentoring program, and a health and safety committee; we did not want to impose another layer of administration on areas that are already managed through other means. Furthermore, the social dimension of sustainable development is still a matter of considerable debate, as shown in Exhibit 35.7.

35.63 We developed our strategy's goal, objectives and performance indicators using internal and external consultations. Our internal consultations were designed with a dual purpose: to inform employees about how well the Office had met the commitments of our first strategy; and to obtain their input toward the design of our second strategy. All groups in the Office were consulted, including each regional office. A summary of the internal consultations is included in Appendix B. In total, about half the employees at all levels attended the consultation sessions.

Exhibit 35.6

Analyzing Reasons for Unexpected Changes

Dealing with an unexpected change — paper consumption

Our original strategy had a target of a five percent reduction in paper consumption for the first year. Results from the first year showed not a decrease but an increase! We traced the difference to a change in work habits. It coincided with the arrival of the Internet at each work station. While there was a decline in the number of photocopies, it was more than offset by an increase in printer activity. Documents that had been purchased or provided by other departments were now being printed. Through increased awareness and by setting printers to automatically print double-sided, we were able to surpass our original goal, albeit over the course of three years instead of one.

Exhibit 35.7

The Social Dimension of Sustainable Development

Human Resources Development Canada's sustainable development strategy explicitly mentioned a lack of understanding of the social dimension of sustainable development. "Efforts to promote sustainable development have focussed on the trade-offs between economic and environmental goals. The other component of sustainable development, the social dimension, is not yet well understood. How can a society best meet its social objectives, such as literacy, equity, dignity, security, and health, in the context of its economic and environmental goals? How do these different objectives affect each other and how can society achieve a balance between them?"

In their first sustainable development strategies, we observed that many departments gave insufficient consideration to the social dimension – even some departments whose mandates focus on social issues. Our Office has touched on the social aspects of sustainable development in previous audits. Chapter 7 of the Commissioner's 1999 Report discusses current thinking on the social aspects of sustainable development by both private and public sector organizations of other countries.

One of our challenges is to include the social dimension more frequently, wherever appropriate, when planning audits and conducting reviews of sustainable development strategies. A report on a study examining the social dimension of sustainable development is planned for the Commissioner's May 2001 Report.

As part of our external consultations, we received advice and comments from the Panel of Environmental Advisors to the Commissioner for the Environment and Sustainable Development and from departments and agencies.

Updating our strategy and our performance framework

Compared with our first strategy, our second strategy presents a more focussed approach.

35.64 Compared with our first strategy, our second strategy presents a more focussed approach. For example, we have simplified our framework to include a single goal that can be remembered easily (see Exhibit 35.2). This goal will be applied in each of our primary work areas — audit work, day-to-day activities and human resources. In each of these areas we show a link between the goal and the specific objectives.

35.65 We have kept the basic framework of our first strategy, covering our audit work, our day-to-day activities and the management of our human resources.

35.66 For our second strategy, we reduced the number of objectives and indicators in each of these areas (see Exhibit 35.8), and focussed them in a logical way that links activities to the objectives. The result will be fewer objectives and indicators but they will be more meaningful. We also lowered certain targets in our second strategy in areas where we had been too optimistic.

Exhibit 35.8

Streamlining Our Second Strategy

Component	Original Strategy	Second Strategy
Goal	5	1
Objectives	12	7
Indicators	38	26

Selecting the right combination of objectives/activities/indicators/targets

35.67 In our second strategy, we explicitly commit to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that we manage our own operations in an environmentally responsible manner. The choice of objectives, and of subsequent activities, indicators and targets, reflects our priorities, the impact of our activities on the environment, and the balance we seek among our various functions and activities.

35.68 To fulfil our commitment and to turn our objectives into action, we have developed the action plan that is presented in Appendix C. It highlights the links between our sustainable development goal and objectives (planned longer-term results), the activities needed to achieve those objectives, and the results expected in the near future, measured by performance indicators. Responsibilities for carrying out each action and for monitoring progress are assigned to specific individuals in the Office, under our sustainable development management process.

35.69 The potential significance of our audit work is reflected in our objectives and action plan. The primary impact we hope to make on the environment and sustainable development through our audit work is in providing information to parliamentarians and others that, in turn, can influence the activities of federal organizations and others. Although the negative effects of our day-to-day operations on the environment are not significant compared with those of many departments, minimizing them is still an important part of an overall strategy.

35.70 The indicators we have selected will help us monitor our progress toward our goal and objectives. We have chosen them for a range of purposes — some are included to promote change; others to

ensure that we maintain our current performance; and the rest are to track the results of some activities whose outcomes we do not directly control.

Linking our sustainable development action plan to other activities in the Office

35.71 We use three primary methods to link our action plan to other activities in the Office (for example, the Health and Safety Committee). First, the framework we have chosen for our action plan ensures that it is well integrated with the structure of the Office. Second, there is a cross-membership between the SDS Steering Committee and other committees in the Office, and members of the Core Working Group are managers who can control the changes that need to be made. Finally, senior management exercises an oversight role through the Office's Executive Committee.

We have selected indicators to promote change and to track activities whose outcomes we do not directly control.

Exhibit 35.9

Key Recommendations of the Management Review

	Recommendations	Action
Audit work	• A more strategic and transparent process should be established for the identification of high-risk environmental and sustainable development issues by, among other things, providing stronger guidance to audit teams.	• Managers with environmental expertise have begun to provide advice to audit teams on potential environmental issues that could exist for that entity.
	• There should be an increased transfer of sustainable development knowledge and expertise across the Office.	
	• The assignment of responsibility for environmental and sustainable development practice development initiatives should be clarified and the specific actions better defined.	• To be implemented by March 2001.
	• Performance targets should be considered for audits or studies targeted at the "social" dimensions of sustainable development. This could potentially involve departments not currently seen as high-risk from an environmental and sustainable development perspective, and would reflect the direction currently being provided to departments to address the social dimensions of sustainable development in their strategy.	• Will be considered after the present study on the social dimension of sustainable development is tabled in May 2001.
Day-to-day activities	• The performance indicators selected for "greening" the Office's purchases should be aligned with the newly developed green rating system developed by the procurement section.	• Implemented – included in the design of our second strategy.
Human resources	• The environmental and sustainable development training plan should be updated annually.	• Implemented – included in the design of our second strategy.

Our main challenge is still to further integrate environmental and sustainable development issues into our audit work.

Issues associated with our three core activities

35.72 The management review presented a summary of the issues that we needed to consider in preparing our second strategy. The key recommendations of this review are shown in Exhibit 35.9, along with the actions we propose.

Specific issues that will require additional attention during the next three years

35.73 In our audit work. Our main challenge is still to further integrate environmental and sustainable development issues into our audit work. We expect that our planned actions will provide for a more integrated approach to our audits.

35.74 We also need to pay more attention to horizontal issues that cut across departmental mandates or across political jurisdictions. We have not yet developed a means of working with other jurisdictions to audit environmental commitments that transcend national borders.

We will work with departments and others to ensure that we achieve our mutual objectives.

35.75 In our day-to-day activities. During the next three years, we will undergo a major refit of our National Capital Region office. We are encouraged by the support provided by Public Works and Government Services Canada, the department responsible for the refit. We will require that all aspects of the project be carried out in an environmentally responsible manner and we hope the refit can serve as a model for renovating other government offices.

35.76 In managing human resources. Our challenge will be to update and complete the implementation of an appropriate training plan while continuing to inform and train staff and management on the issues of the environment and sustainable development. We must ensure that our internal policies are in keeping with our sustainable development objectives. For example, during the period of the first strategy we eliminated the parking subsidy received by management, as it was not in keeping with our values for sustainable development.

Working with others

35.77 Throughout the implementation of our second strategy, we will work with departments and others to ensure that we achieve our mutual objectives. We will share information and experience so that we, along with our partners in Canada and internationally, can benefit from new ideas and make further progress in our understanding and application of sustainable development solutions.

35.78 We will work with Public Works and Government Services Canada to improve our operations — whether reducing energy or improving monitoring of our waste.

On the path toward sustainable development

35.79 We do not expect that we will reach our goal within the next three years, but we are confident that during the term covered by this strategy, we will move forward in our journey toward sustainable development. We are moving in the right direction, and this strategy will help to sustain our progress.

Appendix A

Strategy Team

Deputy Auditor General: Michael J. McLaughlin
Sustainable Development Co-ordinator: Gordon Stock

Core Working Group

Paul Fowlow
Rita Gudziunas-Mankowski
Kathleen Hobbs
Julie Pelletier
Art Routliffe
Gordon Stock

For information, please contact Gordon Stock.

Appendix B

Internal Consultations Summary: June and July 2000

The purpose of the consultation sessions was to inform employees about the Office's performance in fulfilling the commitments made in its first Sustainable Development Strategy (SDS) and to obtain their input for the development of the second SDS, due to be tabled in December 2000 if Parliament were sitting. All Office groups, including each regional office, were consulted between 9 June and 14 July 2000. About 50 percent of Office employees at all levels attended the consultation sessions.

In order to obtain their input on the development of the new SDS, employees were asked to form small groups and provide recommendations for the following questions:

- **General – organization:** How can the Office help Canada improve in future years?
- **General – individuals:** As Office employees, how can we contribute individually?
- **Audit work:** How can we improve our products with regard to the environment and sustainable development?
- **Our people:** What can we do to ensure that our people have the right skills to identify and apply environmental and sustainable development considerations?
- **Our day-to-day activities:** How can we improve our activities and be a model organization from a social and environmental point of view?

It should be noted that while we asked each group to challenge the overall framework of the existing strategy (audit work; day-to-day activities; and human resources) if they thought it should be amended, they did not challenge it. We cannot include all of the suggestions in our second strategy, but they will be used for future reference. Since the consultations, we have communicated with employees to let them know the results.

Appendix C

2001-04 Action Plan for Sustainable Development

For Our Audit Work

Sustainable development objectives	Activities	Performance indicators	Targets/Baseline
Objective 1: To incorporate environment and sustainable development (E & SD) as an integral part of our audit work (DAG Audit Operations Branch)	**Incorporate E & SD in our audit work** • Improve consideration given to E & SD issues during audit planning phase • Consider undertaking joint audits with auditors from other jurisdictions when E & SD issues reach beyond the federal government's mandate • Consider the development of E & SD practice guides	**Incorporate E & SD in our audit work** • % of audit planning documents that considered E & SD issues	Target: 75% by 2002, 90% by 2004
		√ % of audit planning documents that found E & SD issues to be significant [1]	Target: 20% by 2004 Baseline to be established in 2000-01
	E & SD outputs from the Office • Assess nature of E & SD work done for Office products (e.g., financial audits, special examinations of Crown corporations, value-for-money (VFM) audits and studies and review of Sustainable Development Strategies - SDS) • Practice Review should determine whether E & SD issues were integrated in VFM chapters and special examinations according to audit plans – or, where changes have occurred, that they were appropriately documented (update VFM manual to reflect this)	**E & SD outputs from the Office** • Expenditures on E & SD audit products as % of total audit costs	Target: 20% by 2004 (17% in 1998-99)
		√ % of chapters and % of special examinations that integrated E & SD issues	Target: Chapters – 30% (26% in 1998-99); special examinations – Baseline to be established in 2000-01
		• % of recommendations and observations related to E & SD (VFM chapters and special examinations)	Target: 30% (31% in 1999-2000 for VFM only)
		Monitor and report on the implementation of departmental Sustainable Development Strategy Completeness of departments' and agencies' SDS • % of departments and agencies SDS that follow guidance provided by Treasury Board Secretariat and Commissioner of the Environment and Sustainable Development (CESD)	Target: 100% by 2004 [2]
		√ % of actions planned that have been implemented	Target: 50% by 2004 [2]

√ **Key performance indicators.** We will report annually on our performance on key indicators in our Performance Report. Other indicators are reported internally to management.

[1] Performance measurement using this indicator is being revised.
[2] Achievement of these targets depends mostly on the performance of departments and agencies; we view these targets as expectations.

Sustainable development objectives	Activities	Performance indicators	Targets Baseline
Objective 1 (Cont'd)		**Impacts on parliamentarians**	
		Tracking of references to Office work	
		√ Number of parliamentary committee hearings on E & SD issues using our reports (committee hearings where there were Office witnesses)	Target: Tracking only - Baseline: 8 of 31 hearings in 1999-2000
		Impacts on entities	
		Acceptance of and progress on recommendations leading to better practice	
		√ % of recommendations related to E & SD where entities agreed with our recommendations and satisfactory progress was made	Target: 65%[3] by 2004 - Baseline: 42% in 1999-2000
		Impacts on the public	
		Media coverage	
		• % of media coverage of E & SD issues	Target: Tracking only Baseline: 29% in 1998-99
		Visits on Office Web site, etc.	
		• % of Office Web site activity related to E & SD	Target: 25% by 2004 Baseline: 18% in 1997-98
Objective 2: To help strengthen the capacity of federal, territorial and international organizations to continually improve their management of E & SD issues and delivery of related programs (Office senior management)	**Outputs from the Office** • Prepare audits, studies development of tools such as better practice guides • Participate in international forum	**Outputs from the Office** • Number of presentations on E & SD issues at external events (this indicator is also listed under human resources)	Target: To be determined Baseline to be established in 2001-02
		Assessment of departmental capacity to manage E & SD issues	
		√ % of federal organizations that conform with appropriate standards of practice for protecting the environment and promoting sustainable development	Target: 75%[3] by 2004 Baseline: 50% in 1999-2000
Objective 3: To monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns (Commissioner's Office)	**Petition (letters) process** • Promote the existence of the petition process • Monitor type of petitions received • Monitor the replies by departments to petitions • Report petition activity	**Petition (letters) process** • Number of petitions received by CESD • % where departments responded within prescribed time frame	Target: Tracking only Target: Tracking only

[3] Certain targets that were set in our 1999-2000 Report on Plans and Priorities have been reduced because we found the original targets too optimistic.

For Our Day-to-Day Activities

Sustainable development objectives	Activities to achieve these objectives	Performance indicators	Targets/Baseline
Objective 1: To continually improve our Sustainable Development Management Process (SDMP) (Corporate Services Branch)	**Monitor the delivery of the SDMP** **Identify non-conformance and implement corrective actions** **Update/improve SDMP annually**	**Review and Corrective Actions** • Number of internal and external reviews	Target: One external review by 2004 and an internal review every year
Objective 2: To reduce consumption and waste (Corporate Services Branch)	**Paper consumption** • Provide information and promote alternatives such as electronic filing **Reducing consumption and waste** With our employees: • Identify waste reduction opportunities • Promote reuse of materials • Develop an awareness program for employees With Public Works and Government Services Canada (PWGSC): • Conduct waste audit that provides information on Office performance • Implement a waste reduction action plan • Promote a more environmentally friendly facilities	**Paper consumed** √ Total consumption of paper per employee per year **Reducing waste** • Portion of solid waste diverted from landfill **Reducing consumption** √ Dollar value of consumable supplies (excludes furniture and equipment) per employee	Target: 2% reduction each year Baseline: 8,842 sheets – three-year average 1997-98 - 1999-2000 Target: To be determined Baseline to be established by 2001-02 Target: To be determined Baseline to be established by 2001-02
Objective 3: To purchase, provide and use goods and services in an environmentally responsible manner (Corporate Services Branch)	**Goods and services** • Update Office procurement policy to include environmental component **Practices and behaviors** • Promote use of teleconferencing, videoconferencing and Web-based communications **Work in co-operation with PWGSC** • Promote and monitor purchase of environmentally friendly goods and services during building refit	**Goods and services** • % of stocked goods (office supplies) that have environmentally responsible characteristics • % of contracts where environmentally responsible considerations were included in the decision-making criteria	Target: 2% annual increase Baseline: 26% at end of 1999 -2000 Target: To be determined Baseline to be established in 2001-02

For Our Human Resources

Sustainable development objective	Activities to achieve these objectives	Performance indicators	Targets/Baseline
Objective: To enhance the awareness and capability of Office staff to promote E & SD issues in their audit work, the Office's day-to-day operations and society at large (Corporate Services Branch)	**Support and guidance** • Provide sources of information, including the development of E & SD practice guides • Promote E & SD consultation services within the Office (by E & SD functional responsibility leader within the Office, including the Commissioner's office)	**Support and guidance** • Number of practice guides developed	Target: To be determined Baseline to be established in 2000-01
	Increase environmental knowledge and awareness • Assess needs to be met and update and implement training plan for audit staff, including new employees • Provide appropriate, timely professional development courses • Develop an action plan for E & SD related activities for the benefit of all Office personnel (e.g., general E & SD information provided and circulated, sessions, green tips - green intranet news, activities of the Environmental Knowledge Network information sessions, Environment week, etc.) • Encourage staff assignments between CESD and audit operations	**Increase environmental knowledge and awareness** ✓ Number of learning events held that relate to E & SD awareness and training (formal and others) • % of audit staff who participated in SD audit training sessions • Number of presentations on E & SD isues at external events (this indicator is also participated in SD audit training sessions EnviroSurvey, self-assessment of: ✓ Ability to recognize SD-related audit issues	Target: 7 per year Target: 50%[3] by 2004 - Baseline 42% in 99-00 Target: To be determined Baseline to be established by 2001-02 Target: To be determined Baseline to be established in 2001-02
	Staff leadership • Consider establishing an Auditor General Green Award to recognize employees who help promote E & SD	• % of employees who consider themselves to be actively committed in terms of environmentally sound behaviour	Target: Tracking only Baseline: 49% in 1999-2000, July 1999 EnviroSurvey

[3] Certain targets that were set in our 1999-2000 Report on Plans and Priorities have been reduced because we found the original targets too optimistic.

Appendix D

Steps in Developing Our Second Strategy

Month/2000	Step
April and May	Contracted external consultant to perform management review to: • assess the extent to which the OAG has been successful in achieving its SDS objectives in audit work, administration, and human resources; • assess the SD management framework as it pertains to performance related issues; • provide advice and guidance on how the OAG should proceed with the update of its SDS; and • review the procedures for integrating environment and sustainable development (E & SD) issues into the audit planning process.
June	Analyzed existing framework, including goals, objectives, and performance indicators, concentrating on whether they were still relevant and significant, whether there were logical links between the measures and the objectives, whether there was a good balance of measures spanning the spectrum of inputs to results, and whether we had eliminated duplication of measurement among indicators.
June and July	Conducted internal consultations, providing information on how we performed against objectives in our first strategy and eliciting ideas for our second strategy. For further details, see Appendix D.
July	Conducted external consultations with Commissioner's Panel of Environmental Advisors.
August	Drafted the goal and objectives for our second strategy.
September	Drafted the action plan for our second strategy.
October	Conducted external consultations with 8 parliamentarians and 9 departments and agencies.
October and November	Drafted and completed the Sustainable Development Strategy document.

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter	
	Foreword and Main Points
1	Service Quality
2	Human Resources Development Canada – Service Quality at the Local Level
3	Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4	Indian and Northern Affairs Canada – Elementary and Secondary Education
	Chapters 5 & 6
5	Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6	Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7	Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8	Department of Finance – Managing Canada's Debt: Facing New Challenges
9	Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter	
	Foreword and Main Points
10	Transport Canada – Airport Transfers: National Airports System
11	Human Resources Development Canada – Grants and Contributions
12	Values and Ethics in the Federal Public Sector
13	Assessment of Financial Management Capabilities in Departments
14	Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

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	#_____	____ English	____ French
	#_____	____ English	____ French
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